

**Prospects for European Integration
of the Ukrainian Economy:
Views from the In- and Outside**

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**PRECONDITIONS FOR INTENSIFICATION
AND ACCELERATION
OF UKRAINE'S EUROPEAN INTEGRATION**

1. European integration should become the leading idea of economic policy. It should be accepted by everyone, irrespective of his political affiliation, since the Ukrainian nation has set the European standards of life as its benchmark. At that, European integration should not be understood as a refusal to cooperate with others, and with the CIS countries first of all. Such a way of looking at this problem derives from the fact that reaching the European level of life is a strategic target of other countries of the former Soviet Union as well.

2. To solve the problems of European integration, Ukraine needs a respective theoretical concept developed. Ukrainian economists analyzed the practice of market reforms in the countries which succeeded and proved the inapplicability of any cliché of the reformation models known to date in the world. This conclusion is also true for the «Washington Consensus» of the International Monetary Fund [3]. The universal formulas of market reforms recommended for the post-socialist republics of the «Washington Consensus» rested on the neo-classical theory and did not reflect the specifics of the current changes. The neoclassical theory described functional relations in mature market economies of the most highly developed countries and contained no answers as for the specifics of reformation in transition economies. To manage the transition problems, needed were a new theory and variety of the models.

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3. The common feature of the European countries in transition and Ukraine was the fact that the latter appeared on the stage of transition from the planned to the market economy. There was, however, a peculiarity, which consisted, among others, in the fact that Ukraine had to disintegrate from the single economic complex of the former Soviet Union. The time has proven that the problems of disintegration turned out to be of no less complexity than those of the integration, and even today, there is not a single model that would solve them adequately. There is only one obvious thing: we need such a model that would satisfy both the countries, from which to disintegrate, and the countries, with which Ukraine wants to integrate. This model should rest on consensus of interests, since the lack of consensus often leads to economic aggression and the conflict in which Ukraine usually appears vis-a-vis its – much stronger – opponent. Oil, petroleum, gas, sugar, meat, milk, and other wars with Russia are the best proof of it.

4. The economic integration of Ukraine into the world and European economy could come after the reform based on one of the following two models:

a) elimination of the planned and formation of the market economy on a new basis (Eastern-European model);

b) development of the market economy within the planned economy (Chinese model).

Unfortunately, neither of these methods lived through consecutive development, even though some of their elements were used. The vagueness of the economic reforms in Ukraine is the main reason for lagging economic reformation. Thus, Ukrainian politicians must abandon the indeterminacy in the reformatory policy.

5. In order to accelerate the process of European integration of Ukraine, it is necessary to study the issue of broader implementation of the technological breakthrough model. It appeared to be more efficient during the period of Russian transition to capitalist economy in the XVIII–XIX centuries, when the technological breakthrough in agriculture was realized. European countries were the first to achieve the technological breakthrough, China and new post-industrial countries followed.

Can or could Ukraine realize a technological breakthrough and join the «club» of the developed countries? It did have a chance, but it was too miserable. Ukraine owned large scientific and technical potential in the military-industrial complex, but it had no complete cycle – after the downfall of the Russian empire, many branches of this complex remained outside the Ukrainian borders. Under such conditions, people thought of survival, not of technological breakthroughs. To develop new directions, Ukraine had found neither the concept nor the investments.

However, there still are several opportunities for the technological breakthrough in Ukraine. Firstly, according to the UNESCO data, during the Soviet times, the share of Ukraine in the world scientific and technical potential made

almost 7%. This was human potential, which is still there in terms of its quality. The country possesses world-recognized scientific schools and unique technologies in the spheres of new materials development, biology, radio-electronics, physics of low temperatures, electric welding, information science, telecommunications, and military technologies, which can create and develop highly technological production that would comply with the highest world standards.

One proof of high technological level of Ukraine is the fact that Ukraine is the world's # 6 in terms of weapons and military equipment production volumes after the USA, the Russian Federation, France, Great Britain, and Germany. The *Yuzhmash Plant* (Dnipropetrovsk), the state-owned *Malyshev Plant* (Kharkiv), *Motor-Sich JSC* (Zaporizhzhya), *Arsenal JSC* (Kyiv), state-owned holding *Artem* (Kyiv), *Dnipropetrovsk Aggregate Plant*, scientific and industrial complex *Zorya-Mashproekt* (Mykolayiv), *Tekon-Electron JSV* (Lviv), *Machine Building Plant «FED»* (Kharkiv), *Aviation Plant and Company «Aviant»* belong to biggest enterprises in the branch that controls almost 50% of all foreign trade operations. At that, we cannot but acknowledge that exports of defense industry products (over 55%) is generally oriented at the countries of the CIS, which can result in the loss of positions on this market in the course of European integration in the nearest future. It is more obvious today that Russia plans to curtail economic partnering with Ukrainian enterprises. Specifically, the new Russian helicopters «Ka-60», unlike previous modifications, will not be equipped with the engines produced by *Zaporizhzhya Plant «Motor-Sich»*. Besides, the Russian Federation develops its own production of air-raid defense complexes («Z-300») and ballistic rockets («Topol-M»). Recently, the Russian government announced the establishment of the national corporation that will deal with development and production of the anti-aircraft-and-rocket complex «Z-300» [5].

Secondly, the political and scientific elite of the country is more serious about the priority of technological factors of economic growth. Recently, the innovational priorities of Ukraine have been defined. Today, there are enough grounds to speak about the activity of Ukraine in large economic projects, such as the «Odessa-Brody» project, or initiation of new international projects in the sphere of power engineering.

6. The absence of an adequate scientific foundation and accompaniment of the Ukrainian reforms brought to emergence of the economy, in which oligarchic clans dominate. The shift towards market economy is mostly inertial. Thus, it is impossible to avoid some occasional shocks in the economic and social spheres. They can take on the features of economic wars and expansion of foreign capital. Finally, the economy turns into the market one; however, the country gets into «the company» of lagging economies.

In this case, it is reasonable to note that the formation of the Ukrainian economic model should consider the fact that there are over 150 market economies in the world, but only some of them belong to developed economies, whereas the majority of them can be characterized as poor countries.

Thus, this gives grounds to state that overcoming this historic anomaly by transfer of the European legislative base or the WTO conditions onto the Ukrainian ground will not automatically make Ukraine prosper. History gives a chance to everyone, but only those who are ready for it – will use it. In the times of its independence, Ukraine had many chances of becoming a developed country, but unfortunately, we cannot assert that it used them. Will there be new chances? Naturally. Shall we use them? Naturally. But which chances and when? This is not an easy question to answer. Much depends on the readiness of the economic and political elite of the country to seize the existing – or even create new – opportunities.

7. The curse of the Ukrainian economy is a very special attitude of many affluent proprietors towards private property. They are perfectly conscious of the inadequate legitimacy of its acquisition, and thus, their sensation of possession is seriously incomplete. Their treatment of property is close to criminal. A classical proprietor cares primarily about the «happy future» of his property and its accumulation; a classical oligarch, on the contrary, lives in fear of alienation, the lawfulness of possession being conclusive only as long as he is in political power. As a result emerges a model of democracy, where the rich become also the mighty. Political power and business amalgamate. However, the power does not offer any guarantees of evading the responsibility for illegal acquisitions. Thus, the current economic order makes the economy operate in the shadow or export the income generated. At the same time, the evolving economic agents are weak and incapable of creating a new face of the national economy in the nearest future.

Thus, irrespective of the market model Ukraine chooses, it may only be realized under conditions of providing access to big capital for population and exercising public control over all financial flows. If to recollect privatization as a logical process of transferring the property owned by the state into the hands of the people at market price, then initially, all the citizens should have been equal owners. Under the new conditions, it is necessary to find ways of bringing the property and production outcomes near the employees without re-privatization.

When developing the Ukrainian version the market economy, worth reproducing are the long-lived traditions of social partnership and social responsibility in the spheres of production, as well as distribution according to principles of productive democracy and corporate partnership. They should be adjusted to conditions of the market economy. Here, the experience of Sweden, Germany, Israel and Spain can be of great value, although we cannot dismiss the Japanese system of production paternalism. Hopefully, these methods may be decisive in eliminating bribery and corruption under minimal role of the state in the economy. Such an approach represents a liberal model of the market economy, and basically, it may suit the Ukrainian mentality.

8. In view of the aforementioned, the model of «Swedish socialism» – with its high social protection – may be a perspective one for Ukraine. At that, the

«Swedish» methods of income redistribution by means of high taxes and state expenses have to be modified: personal income taxes should be preserved low, while income taxes should be assigned to tasks of creating social programmes and innovation funds. At the same time, one should search for sources of high one-time state revenues for investment in the basis of the future economic structure, in particular new infrastructure. In Norway, this problem was solved by allocating revenues from the sales of oil. In Ukraine, it may be resolved by selling such state-owned enterprises as *Kryvorizhstal*, which generated 24.4 bln. hryvniya, or over \$4 bln. on the open auction.

9. In order to ensure a steady development of the economic system of Ukraine, it is necessary to pay attention to mechanisms of adequate reaction to challenges of the modern economic reality. These should be the governmental mechanisms that use the fundamental challenges to consolidate their own capacity and provide high internal effectiveness. These challenges could appear on the macro-, mezo-, and micro-levels, including, in particular, globalization processes, intense competition and proliferation of economic democracy, acceleration of changes, informational breakthrough, and increased role of intangible factors.

10. Ukrainian politicians and economists should master the methods of crisis management, to use the effects of the world, regional and national calamities to their benefit. Economic theory and practice build the model of the future economy proceeding from the concept of sustainable development. Western economists recognize the theory of extended reproduction in the Marxist theory. We suppose that is why there is no scientific answer to the question of why the choice of the market economy model is insufficient to achieve high economic indicators. As a matter of fact, in the economic competition win only those nations that are ready to benefit from non-standard situations. Thus, we need to apply this standpoint in our analysis of the consequences of different events, for example, world economic crises, the Asian financial depression of 1987, the terrorist attack of September 11, 2001, the Ukrainian Orange Revolution of 2004, the petroleum crisis in Ukraine of mid-2005, the devaluation of dollar to hryvnya of October 2005, the Ukrainian gas, meat and milk wars with Russia of January 2006, etc. This analysis shows that each cataclysm has both the losers and the winners. As a rule, depressions end in favour of certain countries or companies, who nevertheless do not receive their gain automatically or by virtue of some unknown forces. Only those win who are ready to exploit the changed circumstances and are able «to read» through them to their benefit.

Ukraine must use modern world and domestic calamities to rebuild the structure of the economy with consideration for geopolitical factors, to differentiate the sources of consumption of the products of natural monopolies, to develop new branches, and to transit to science-based technologies and innovative development. In this respect, significant is the example of Europe, for which the gas crisis, according to the *Le Monde's* general definition of January 3, 2006, has become the birth of the new geopolitics.

11. Ukraine should enter an economic growth area or form one, though for starters, this can be a triangle of economic growth [4]. A lot of work recently has been done to develop the international GUUAM project. It largely satisfies the ambitions of Ukraine as a regional leader. The GUUAM project is supposed to not limit the possibilities of creating other economic growth areas, in which Ukraine could participate. Let us consider the following models:

- a) Ukraine – Moldova – Romania;
- b) Ukraine – Poland – Belarus;
- c) Ukraine – Moldova – Romania – Bulgaria – Turkey – Armenia – Azerbaijan – Georgia – Krasnodar Region of the Russian Federation.

Economic growth areas aim to develop geographically-close territories on the basis of efficient use of production factors. Within such an area, free movement of goods, services, capital and labour resources should be guaranteed.

Poland and Ukraine could take on the role of the leaders in these structures. Moreover, Poland, the country claiming special political niche in the EU structures, could use its experience and knowledge in elaboration of the principles and realization of the Eastern policy of the EU. At the same time, each of the two states could define the sphere of mutually beneficial bilateral interests. In view of the fact that EU accession is the strategic aim for almost all of these countries, the deepening of integration among them will favour their successful integration with Europe.

12. In practice, Ukraine should develop the idea of sector integration, which has become the ground for the formation of the European Union (here we mean the creation of the common coal and steel market in 1951–1957, with participation of France, FRG, Italy, Belgium, Luxembourg and the Netherlands). Today, urgent is the creation of the common energy market on the European continent. This has to be an alternative to Russia's plans of developing the global energy empire since 2004, a part of which having already been realized. From the former Soviet Union, Ukraine inherited the energetic dependence from Russia, which transports almost 80% of oil and over 75% of gas to Ukraine. By chance, Ukraine has found itself in the sphere of economic and political influence of the new global imperial policy of its neighbour. Therefore, at the end of 2005, Russia declared a quintuple increase of the gas price for Ukraine, thus «spoiling» the image of the Ukrainian power on the eve of elections to Verkhovna Rada of 2006. This situation was mitigated by the fact that Russia transports 130 bln. cubic metres of gas through Ukraine, which makes 3/4 of its gas exports to Europe and a third of the European countries' gas consumption.

Taking into account the oil, petroleum and gas wars initiated by Russia against Ukraine during 2005–2006, Ukraine started an intensive work over the elaboration of the energetic strategy which would determine the directions and priorities of the energetic policy for the next decade. However, it is impossible to

elaborate this strategy without assistance and collaboration with other countries, especially neighbour-countries.

Sector integration will provide an opportunity to form and improve the institutes that may serve as a bridge for the Ukraine's integration in the EU. At the present stage, it will add to the integration processes that develop within the European Union, and stand against the formation of the new forms of imperialism.

13. The key tendency of the world economic development is the classical inter-sector division of labour that is gradually ceding to intra-sector distribution of labour. Ukraine has got a chance to compete successfully for radical expansion of its share on the intra-sector markets. For that, as shows the experience of the developing countries, it is necessary to create the conditions favourable for foreign capital. The disputed questions in the economic relations with Russia proved that Ukrainian capital should be oriented towards formation and participation in the integrated international systems of production and sales, with dislocation in different countries. Obviously, in this case, a share of income will settle abroad, but that will also mean that the risk of loss will be distributed proportionally.

14. Ukraine should be fully aware that the attracted foreign direct investments will not serve to organize new production areas or open regional affiliations, but to purchase the existing ones. Today, 3/5 of the total volume of FDIs in the USA, the EU and Japan derives from mergers and acquisitions [2; 5]. Similar tendency reveals itself in Ukraine as well. For example, *the Mriya Bank, Kryvorizhstal, Ternopil Airport* were purchased by foreign companies. *The Ukrsoobank, Ukrtelecom, and Nikopol Plant of Ferroalloys*, etc. are to follow. Thus, we need the market mechanism which would provide that every enterprise subject to privatization is sold at fair price.

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