

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

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**SOME ASPECTS
OF ECONOMIC INTEGRATION
OF UKRAINE INTO THE DOMESTIC
MARKET OF THE EU**

The fundamental principles of development of the relations between Ukraine and the European Union are formulated in the «Agreement on Partnership and Cooperation between the European Community and its Member States on the one side, and Ukraine on the other», or the EU-Ukraine Partnership and Cooperation Agreement. This Agreement was signed on June 14, 1994, in Brussels. However, only on February 18, 1997, this Agreement was approved by law in German Bundestag. The financing of many measures stipulated by the Agreement is realized through Project Grants within the framework of TACIS programmes and other national assistance funds. The Representative Office of German Economy in Kyiv, Ukraine, was set up many years ago to support the corporate aspect of economic cooperation between Germany and Ukraine. Within the framework of German «Transform-Programm», more than 20000 loans in value of more than €85 mln were issued in 1994–2004 to Ukrainian small- and medium-size businesses.

Cooperation financing is usually channelled through project financing. As the previous practice shows, one should keep in mind that the project application should be clear, it needs certain time to be processed, and the available resources, which could be spent to finance all the desired projects, are insufficient.

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Important is that all cooperation partners possess the knowledge of all distribution procedures. Among numerous success stories, one can see Ternopil Economic University and our Integrated Two-Diploma German- and Ukrainian-Language Study Programme in International Economics, with our both universities from Dresden and Ternopil and the Deutsche Akademische Austauschdienst participating since 2003.

Some aspects of economic development of Ukraine and the EU domestic market:

1. Statistics testifies to an absolute increase in turnover of goods and services between Ukraine and the EU, with respect to currently 25 EU member states. However, it becomes ever harder to secure sales opportunities in the EU for traditional products of metallurgy and agriculture of Ukraine. Thus, the main focus of trade turnover might not necessarily consist in absolute increase in receipts from trade in the traditional sphere, but it should be oriented towards reduction of unit production costs, enhancement of product and service quality, and development of new tangible and intangible products supply for the EU customers. This should also be set priority for the EU-Financing programmes and the Ukrainian government. Thus, the insufficient capital stock and underdeveloped credit system in the sphere of small- and middle-sized enterprises could be compensated by promotion of e-commerce opportunities. As the world practice shows, this technology allows reaching a relatively large increment of economic power with relatively small capital invested.

2. Ukraine is passing through the stage of transformation of its economic form from centrally-planned economy to market economy. This is a multi-stage process. We can distinguish the following stages which have already been passed:

- The elimination of central state planning for all economic subjects took place already in the early 90-s.
- The independence of Ukrainian enterprises resulted in reduction of production and sales, as well as inflation which influenced upon the redistribution of national wealth.
- In the second half of the 90-s began a new upswing in the Ukrainian production, as well as in legal and «shadow» economy. The principles of market economy started to take effect within the macroeconomic scope. The principle of autonomy in business decision-making became reality.

3. What do Ukrainian enterprises expect to gain from access to the EU domestic market?

- Observance of legal and technical standards, formulated in the directives of the EU and separate EU-member states, which considerably diverge from the Ukrainian standards. Here, the Ukrainian side should undertake adjustment efforts.

- The documentation of trading activity and other forms of cooperation, which is either unknown to or rather difficult for many Ukrainian enterprises to realize. Professional consulting must become more developed in Ukraine.
- The system of tax facilities, EU-subventions and import restrictions creates problems for Ukrainian exporters. In this case, the EU policy should advance to principles of the market economy. One such possibility could be to change the subvention policy in the agricultural sector of the EU, which could also be supported by several EU member states. At the moment, many Ukrainian agricultural products are not competitive on the EU internal market because of the EU's subventions to EU farmers.

4. Though insignificant in terms of monetary value, but widely spread, corruption has led many Ukrainian enterprises and a wide circle of population to give little attention to laws and their power. In many situations, it has become a practice to make up money for violation of laws and rules. For a considerable part of the population, money has become not only the means of payment for the goods acquired or an instrument of wealth accumulation, but it has become the tool which serves to secure one's favourable place in the closed society. Previous governments and power structures supported this system. After the «Orange Revolution», President Yushchenko declared war on this system. Elimination or at least limitation of corruption should become an instrument to open up the way to the EU for Ukraine. The way to EU integration also requires that the observance of laws, rules and regulations be of higher priority in the decision-making process in both the economic life and personal life-style of the citizens.

5. At the same time, a large number of Ukrainians are labour immigrants abroad. Along with more than 300 thousands of entitled-to-vote Ukrainians that are registered at the Embassy and have permanent official residence in other countries, there are more than 1 million of Ukrainians who work with valid and past-due visas permanently abroad and are referred to as labour-emigrants. These people periodically transfer parts of their cash earnings to support their family members living in Ukraine. Thus, in fact, a part of Ukrainian economic growth has its roots abroad. With such money transfers of a considerable part of their wages to their families in Ukraine, labour emigrants support the development of domestic trade in commodities and services, and recently also the private construction of apartments. This money finances the production of many goods and secures work places. To proceed from the assumption that there are at least 300 000 legal and 700 000 illegal Ukrainians working abroad that transfer about 400 Euro per month to Ukraine, the total value of money transfers will amount to 400 million Euro. This is not a suitable model for Ukraine's admission to the EU favoured by all EU states. In Ukraine, the model of societal development should consider the employment of national human capital – in the form of educated people willing to work – within the country.

6. For a significant part of Ukrainian population, the amount of money in their hands is of vital importance. One of the decisive questions in terms of general economic perspective is how a certain amount of money appears in the hands of the citizens. In order to drive Ukraine to higher degrees of legal certainty and market-economy stability, it is important to answer the question when it will become possible for all Ukrainian citizens to live socially-secure and healthy life with legally earned income; the life where it will be possible to sufficiently finance recreation as a form of labour-force reproduction. When providing one's own living at the level comparable to one of the EU member-states with legally generated income becomes general practice in Ukraine, the doors of the European Community will be open for all the Ukrainians.

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