

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

Alla MELNYK

**UKRAINE-EU:
THE APPROACHMENT STEPS**

To discuss the issue under consideration, we need to address the following questions:

1. What is to be understood?

Albania, Croatia, Macedonia, Bosnia and Herzegovina, Ukraine and Moldova have declared their wish to join the EU.

The success of European integration depends primarily on the EU's ability to develop on the basis of both internal and external factors. On the other hand, these are just the factors that give rise to problems making the functioning of the EU more complicated, income re-distribution and economic dualism being just a few examples. Therefore, a compromise between the speed and the quality of integration should be reached, which takes time. In addition, the EU also needs time to "digest" the new members from Central and Eastern Europe, which will allow it to start searching for new sources of growth in the future, thus making Ukraine a real subject of EU application.

© Alla Melnyk, 2006.

Melnyk Alla, Doctor of Econ. Sciences, Professor, Head of Department of State and Municipal Administration, Ternopil State Economic University, Ukraine.

2. Which Steps Did Ukraine Take to Approach the EU?

We can state that Ukraine has switched from declarations to actions. In particular, Ukraine succeeded in fulfilling the Action Plan and adhering to five technical criteria to get the status of the market economy. The criteria include: lowering the level of government's direct and indirect intervention in business activity, in particular, setting fixed prices, inadmissibility of tax discrimination, introduction of special trade and currency regulations (regimes); inadmissibility of stimulation of non-conventional business forms which unbalance the system of payments, e.g. through proliferation of barter operations; inadmissibility of discrimination in the sphere of entrepreneurial activity, which is brought in, as a rule, by ineffective corporate management, lack of free access to information about companies and shareholders, etc.; building an effective financial sector operating independently of the government and having all conditions for investor rights protection; providing an effective system for protection of property rights and functioning of the current bankruptcy regime.

The steps made in this direction will contribute to trade relations with the EU.

In addition, the EU's and Ukraine's intentions to integrate will be further supported with the steps taken by Ukraine to enter the WTO. To fulfill this task, Ukraine took the following steps: cancelled tax privileges to some industries; set equal rates of excise duties on national and imported vehicles according to national regime; abolished exemptions from VAT and income tax, likewise immunity from payments to State Innovation Fund, VAT and customs duties on imported raw materials, equipment and goods produced outside Ukraine and designed for use in technological parks; cancelled privileges in special economic zones, as well as specific regimes for investment activity, in particular, all kinds of tax exemptions on import, VAT, excise duties, quotas and licenses, income tax, contributions to Social Unemployment Insurance Fund, State Innovation Fund, and obligatory sale of currency earnings; cancelled obligatory sale of 50% of currency earnings to the National Bank of Ukraine offered by subjects of foreign economic activity at realization of foreign trade contracts; rescinded discriminative approach in treatment of foreign companies concerning treasury bills for budget settlements; cancelled licensing and quoting regimes on export of some goods; introduced fixed payment for export licensing, which corresponds to particular service cost instead of ad valorem equivalent payment to contract cost.

In addition, it is worth emphasizing that relevant business environment and proper investment climate have been created; the accounting system is being brought into accord with that of international standards. The memoranda on price adjustment signed recently are in full conformity with the law.

Moreover, we can assume that the bankruptcy policy meets the market criteria in full. Some Ukrainian companies have managed to get the market status individually and now operate at the international market, including the EU.

Speaking about advantages, we must admit that there is some governmental intervention in pricing (especially on the market of metals and fertilizers) and in the bankruptcy mechanism. Therefore, all structures of executive power should work at elimination of this problem.

The status of the country with market economy enhanced the positions of Ukraine in its commitment to enter the EU market.

Finally, we have to take into account that commodity circulation between Ukraine and the EU exceeds that between Ukraine and Russia. We feel this will positively affect Ukraine's credit rating.

3. Which Steps Were Taken by the EU?

The EU took a political decision to grant Ukraine the status of the country with market economy. The market status will be in effect in a few months if all 25 countries sign these agreements. The EU and Ukraine will cooperate in the area of space, aviation and power engineering. We expect that relations with 25 EU member countries will improve. Also conducive will be the EU decision on the creation of the EU-Ukraine free trade area.

4. What Should Ukraine Do to Further Integration?

Ukraine should take a number of steps providing both the WTO accession and the EU integration. This primarily implies that the accounting systems be brought in conformity with international standards; that world-known companies be involved in financial auditing; that metal and chemical products be sold off the offshore zones, which will bring down the reasons for antidumping investigations; that pricing freedom within the frames of antidumping investigations be ensured. Second, in supporting the steps taken by the EU, Ukraine has to create a free trade area with the EU. It is important to pursue a clear economic policy [eliminate contradictions between the government and the parliament, likewise between the government and the Ukrainian National Bank with regard to approaches to certain issues [like regulation of currency rate, etc.], which raise concerns of our partners].

5. What is Required from the EU?

The analysis of the institutional preconditions for the integration processes shows that the EU has to reform its supranational institutions. The support of the EU would be very conducive to settling the Ukraine's gas conflict with Russia today and in the future. The European Union should provide support to the Ukraine's WTO-entrance initiatives and intentions of free trade area creation, as well as settle the contradictions that have been taking place since 2004 between the old and the new EU members.

The article was received on April 12, 2006.