

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

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**ECONOMIC INTEGRATION  
INTO THE EUROPEAN COMMON MARKET:  
THE FOREIGN TRADE OF POLAND,  
ROMANIA, AND UKRAINE  
SINCE 1999 IN COMPARISON**

The fall of the Iron Curtain has completely changed the outlook for the people of Europe. For the first time in the history of the continent, peaceful and democratic co-operation and integration appear to be possible in nearly all of Europe. From an economic perspective, this primarily entails the expansion of the existing (western) European Common Market to the east. In this article, a few cornerstones of the market integration of three large eastern European states will be presented. Poland and Romania have been selected as two countries which have already joined the European Union or soon shall do so. The time horizon for the accession of Ukraine is not yet foreseeable.

The comparison of the volumes of current foreign trade of these three countries with that of the EU demonstrates clear differences (see Figure 1). Despite strong economic growth in the past five years and the largest population in comparison with the two other countries, the volume of Ukrainian trade has amounted to less than a quarter of that of its western neighbour Poland in absolute terms. Romania, which is significantly smaller, also achieves a clearly higher foreign trade volume with the EU. In absolute figures, the distances between the countries have thus increased between 1999 and 2004 due to the already existing substantial differences in size, despite strong growth in Romania and Ukraine.

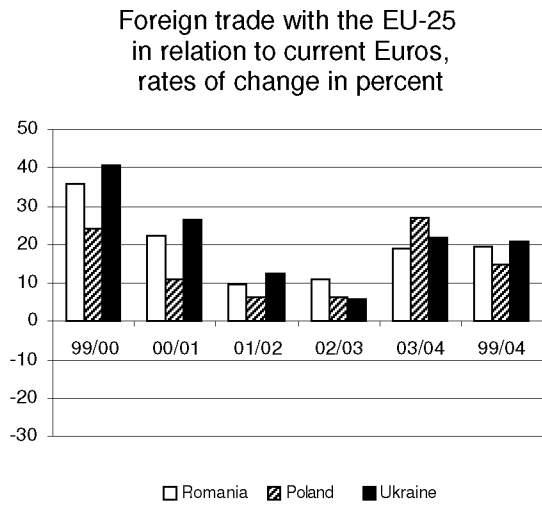
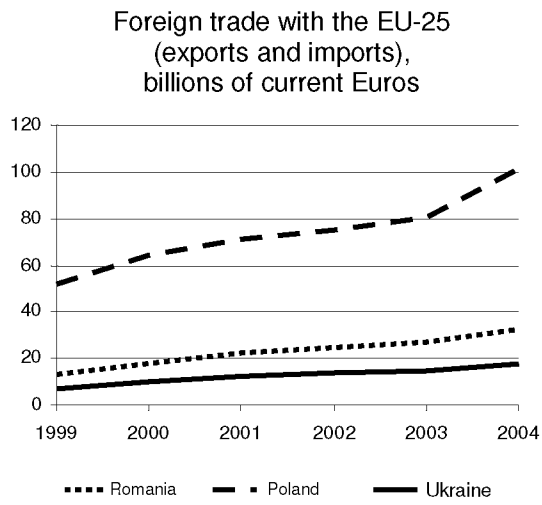
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Figure 1.

**Absolute Foreign Trade and Its Annual Rate of Change**



Source: Eurostat, 2006.

The fact that trade between the EU and a close country such as Poland is more intense than trade with a more peripheral Romania, with which there are still closer ties than with a more distant Ukraine, points to Jan Tinbergen's classic gravity relationship (1962). The clearly larger absolute values for the first two mentioned countries are clearly also the result of their significantly larger gross domestic products.

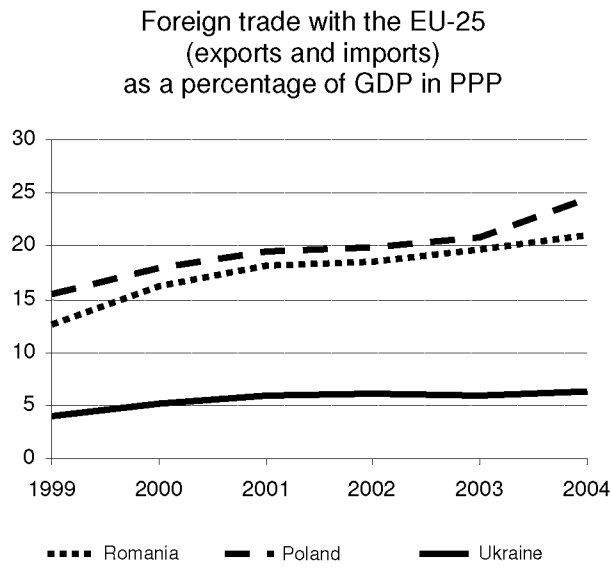
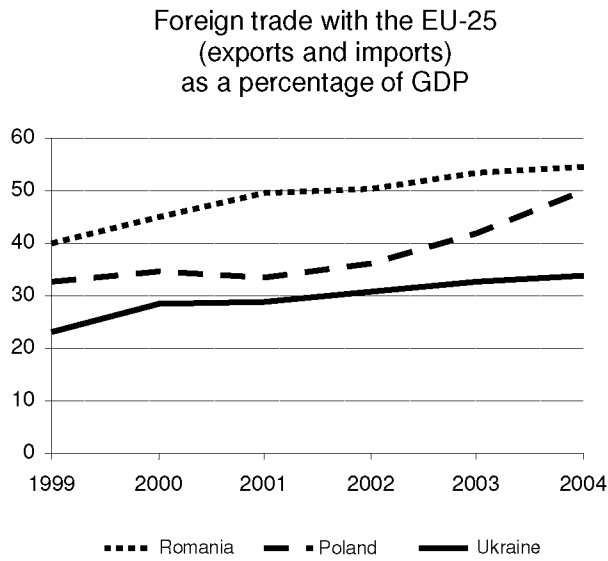
The relationships between foreign trade volumes and gross domestic products indicate that, in comparative terms, there are clear differences – and not only in absolute terms – between the Polish and Romanian and the Ukrainian economic integration into the EU (Figure 2).

To measure this degree of openness of the national economies, two aggregates have been selected, which both can only illustrate magnitude. As for the relationship between the trade volume and the nominal GDP, a relatively continuously increasing trend can be ascertained in all three countries. In 2004, Poland, Romania and Ukraine were more integrated into the European Common Market than at the turn of the century. The previous assertions about gravity are also confirmed. Measured on this basis, the degree of openness of the more distant Ukraine is (narrowly) lower than that of Romania and Poland. The fact that Romania achieves a higher degree of openness in trade with the EU than does Poland in nominal terms can likely be explained by the smaller size of the Romanian domestic market. On the whole, though, the use of this measured value only is sensible as a magnitude distorted upwards above biased magnitude due to the enormous differences between these countries in terms of purchasing power.

The GDP adjusted by differences in purchasing power parity is therefore applied as a lower limit to the degree of openness. Methodologically, this can only represent an approximation – an approximation that clearly underestimates the degree of openness of the examined national economies, but in exchange, represent the economic performance of the three countries in comparative fashion. This measurement underlines the already mentioned clear differences. While Poland and Romania have reached a very similar degree of foreign trade integration with the EU, the trade between the EU-25 and Ukraine only plays a significantly smaller role relative to the economic weight of this country. The fact that these relatively small foreign trade volumes between Ukraine and the EU – in contrast to Poland and Romania – are not equivalent to a lower degree of general integration of this country into the world market is finally demonstrated by Figure 3. Unlike in the case of its western neighbours, Ukraine's economic relations with the CIS countries and Asia still play the most important role in its foreign trade.

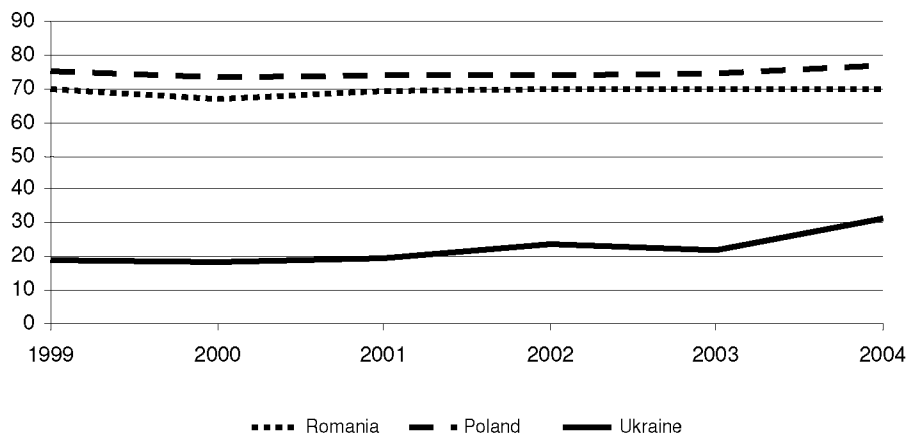
Figure 2.

Foreign Trade in Relation to GDP



Source: Datastream, 2006; Eurostat, 2006.

Figure 3.

**Foreign Trade with the EU as a Share of Total Foreign Trade, in percent**

Source: Datastream, 2006; Eurostat, 2006.

In summary, the following conclusions can be drawn from the comparison of these three large eastern European countries:

1. The integration of Poland, Romania, and Ukraine into the European Common Market is moving along.

2. At the same time, the substantial differences in the trade volumes between Poland and Romania, on the one hand, and Ukraine, on the other, have hardly changed though. Both in absolute terms and when measured by gross domestic product, the economic integration between Ukraine and the EU was clearly weaker in 2004.

3. Ukraine's weaker trade relations are not so much the result of its lack of integration into the world market, but of its stronger relations with alternative trade partners. Unlike Polish or Romanian foreign trade, the foreign trade of Ukraine remains very strongly tied to Asia and the CIS.

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