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PROSPECTS OF INTEGRATION OF THE UKRAINIAN ECONOMY INTO THE EUROPEAN ECONOMIC AREA

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Abstract. The article examines the prospects for the integration of the Ukrainian economy into the European economic space. It has been established that Ukraine's accession to the EU would be beneficial not only for Ukraine, but also for the European Union itself. One obvious advantage is security: if Ukraine were not currently at war, Russian tanks would probably already be in Warsaw or Tallinn. In peacetime, there are many opportunities for cooperation. Obvious areas are food security and energy production; in addition, Ukraine has a lot of human capital and entrepreneurial talent, and it is quite developed in IT, mechanical engineering and other industries that require a high level of technical skills. Ukrainian culture is rich and original. However, not only Ukraine will change during the accession. The European Union itself will be reformed in response to new challenges.

Existing agreements between Ukraine and the European Union have already contributed to significant trade flows. Accession will have greater implications for the free movement of capital and workers – investment inflows and migration outflows. These areas are likely to be the focus of negotiations.

A certain accession agreement usually has transition periods, especially for full free movement of labor, and opt-out clauses. The essential difference will be that Ukraine will be granted the status of "member of the EU" and not associated or annexed status.

The consequences of the Russian invasion of Ukraine and its request for membership in the European Union changed the role of international diplomacy. The European Union realized the need to strengthen its own security and solve internal problems - from the consequences of Brexit to solving the alleged violations of the rule of law by Hungary.

The military incursions into Ukraine have become a catalyst for change across Europe, and this may be reflected in how the member states of the European Union and the European Commission deal with Ukraine's accession.

Keywords: perspective, integration, European Economic Area.

JEL Classification: E 39, O 52, P 51

1. INTRODUCTION

Ukraine's integration into the EU has many powerful supporters from the President of the European Commission to about 90% of Ukrainians (Rating Group Ukraine, 2022). Indeed, this process will take some time (hopefully years, not decades) and will require a transformation of

both Ukraine and the EU. However, the whole world is changing now, and there will be no return to reality until February 24, 2022. This new reality requires strategic thinking and bold imagination. The current full-scale war makes us critically rethink numerous things that have been taken for granted and finally solve a lot of problems that have long been lying on the shelf. Therefore, it is important to examine the prospects of integration of the Ukrainian economy into the European Economic Area.

2. RESEARCH METHODS

The research was carried out using methods of systematization and generalization, analysis and synthesis, comparative analysis and systematic approach. The article is structured in the following way. First, it analyzes the impact of European integration processes in Ukraine. Next, Ukraine's potential participation in the EU and prospects of integration of the Ukrainian economy into the European Economic Area.

3. RESULTS AND DISCUSSION

Since 1991, Ukraine has come a long way from autocracy with a planned economy where entrepreneurship was persecuted and prices were set by the state to market democracy, although imperfect. Due to the International Monetary Fund (IMF), the EU, other governments and international organizations, Ukraine has implemented many reforms, especially since 2014. Surely, its progress could be faster. Unfortunately, the legacy of Russian oppression was very strong. Over the past 20 years, however, the idea of European integration has extended from the group of enthusiastic technocrats to almost all of society.

The majority of Ukrainians have been supporting European integration since 2014. The EU membership will be an anchor for Ukraine's post-war reconstruction that will require not only physical reconstruction but also the modernization of institutions. Ukraine has strong economic and personal relations with Europe (Fig. 1) and, given the fact that five million refugees are now in the EU, these relations will become even stronger.

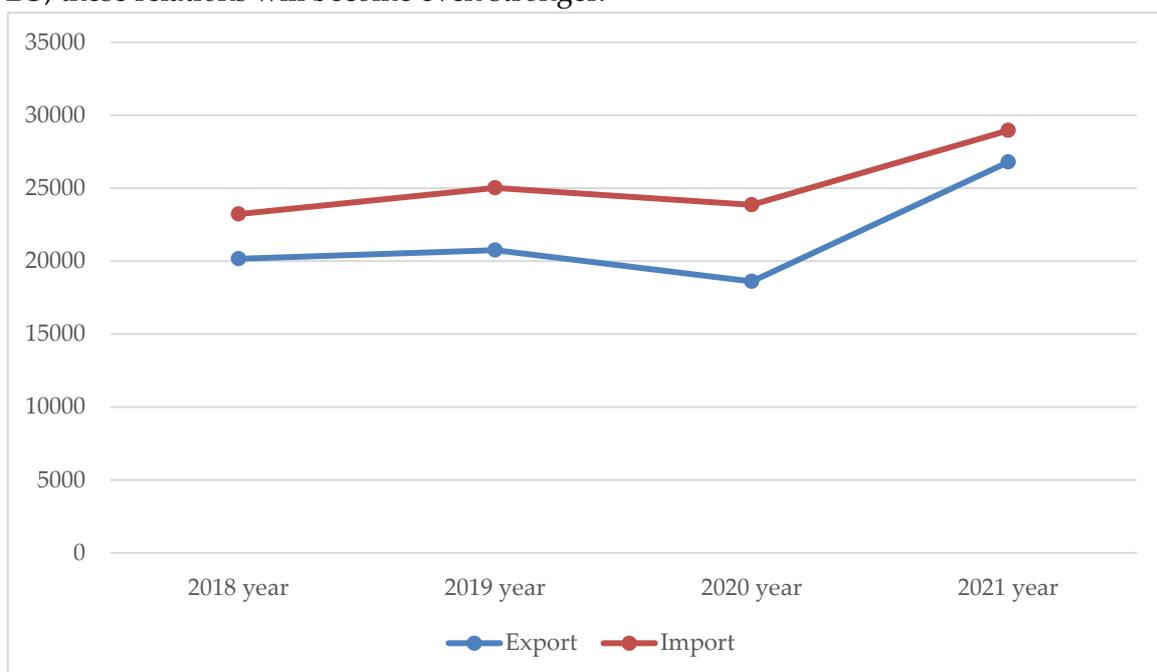


Fig. 1. Commodity trading between Ukraine and the EU in millions of US dollars.

Source: State Statistics Service of Ukraine (<https://www.ukrstat.gov.ua/>); (VoxUkraine, 2021)

The EU has always been one of Ukraine's key trading partners and has been the main trading partner since 2014 (Fig. 1 and Fig 2). After Russia's 2014 attack on Ukraine, the EU became the main destination for Ukrainian migrant workers: in 2014-2019, the EU issued 2.8 million paid work permits to Ukrainians (Dubenko & Kravchuk, 2021). The EU accounts for about 70% of foreign direct investment (FDI) in Ukraine (although this is partially Ukrainian money previously transferred to Cyprus or other offshore areas, Fig. 2). And, according to the National Bank of Ukraine, over 90% of Ukraine's FDI goes to the EU.



Fig. 2. EU's share in foreign direct investment in Ukraine

Source: State Statistics Service of Ukraine and National Bank of Ukraine (<https://bank.gov.ua/en/statistic/nbustatistic>)

The Deep and Comprehensive Free Trade Area (DCFTA) has provided Ukrainian businesses with new opportunities: in 2020, 40% of them reported that EU integration was profitable to them, about 6% felt worse, and the rest felt no change (European Pravda, 2020). As it is unlikely that Ukraine will resume economic relations with Russia in the near future, the importance of the European market will increase for Ukraine, and Ukraine will become more economically and logistically integrated with the EU.

According to the estimates of the Ukrainian government, as of 2021, Ukraine has fulfilled 63% of the Association Agreement provisions with the greatest progress in political dialogue, humanitarian policy, justice, freedom, security and protection of human rights, while financial cooperation, labor relations and transport lag behind (Ukraine-Europe, 2021).

O. Lisnichuk (2020) stress that the Association Agreement and DCFTA have been developed to bring Ukraine closer to the EU (without the promise of full membership), and some paragraphs have been too difficult in terms of Ukraine's institutional development. Nevertheless, the reform progress has been significant since 2014. According to VoxUkraine, almost 1300 reform legislative acts were adopted from January 2015 to June 2022, the most progress in the business environment and administration. 127 of these legislative acts are aimed at combating corruption, 59 are indirect, namely by changing procedures (the most striking example is the reform of public procurement), opening up data or deregulating particular sectors. As a result, Ukraine's corruption perception indicator improved from 25 in 2013 to 32 in 2021; for comparison, Hungary's indicator dropped from 54 to 43 over the same period (Zholud, & Sologoub, 2022).

Since 2014, Ukraine has shown significant improvement not only in public attitudes towards corruption (the share of people who gave bribes has decreased, and the share of people who cannot justify corruption under any circumstances has increased – see Gorodnichenko et al., 2022)

but also in the establishment of official anti-corruption institutions. The National Anti-Corruption Bureau (2021) reports 859 active investigations in the second half of 2021, and the Supreme Anti-Corruption Court has completed hearings in more than 110 cases since its launch in 2019; 58 people have been convicted. The establishment tried to cancel some anti-corruption developments, but the active position of civil society helped to cancel these attempts (Euronews, 2020). Obviously, there are problems, including the unfinished judicial reform. This reform, like the anti-corruption reform, ranks first on the agenda. For example, the DIF survey (2019) shows that the top five crucial reforms for citizens of Ukraine include anti-corruption (63%), healthcare (57%), pension and social security reform (52%), judicial and prosecutorial reforms (37%) and lustration (33%). Of course, today Ukrainians are most concerned about winning the war. Because if there were no Ukraine, the level of corruption would not matter (UN, 2020).

Despite these problems, Ukraine also qualifies for the candidate status, as well as the Western Balkan countries (Emerson et al, 2022). The granting of the candidate status has no disadvantages, since this status does not stipulate specific dates of accession. At the same time, it has a huge advantage: it gives moral support to the Ukrainian people during the war and, more importantly, provides an anchor for further reforms (VoxUkraine, 2021). The path of Ukrainian reforms is quite clear and is described, for example, in IMF programs, recommendations of the European Commission (2020) or documents on the reconstruction of Ukraine (Becker et al., 2022). As mentioned above, the completion of the judicial reform is the most important. It is followed by the public service reform (public decision-making) and market development reforms, including the anti-monopoly one. Besides, it is significant to continue decentralization. It is one of the most successful and popular reforms.

Ukraine's accession to the EU would be beneficial not only to Ukraine, but also to the EU itself. One of the obvious advantages is security: if Ukraine wasn't fighting now, Russian tanks would probably already be in Warsaw or Tallinn (Marayev & Guz, 2022). In peacetime, there are many opportunities for cooperation. The obvious areas are food security and energy production; in addition, Ukraine has a lot of human capital and entrepreneurial talent, and it is quite developed in IT, Mechanical Engineering and other industries that require a high level of technical skills. Ukrainian culture is rich and original (Roland, 2022).

However, when joining, not only Ukraine will change. The EU itself will be reformed in response to new challenges. And it will have to answer several crucial questions.

The need for reforms to strengthen European unity has long been discussed. This debate involves several issues. First, a decision-making mechanism other than unanimity (Morcos, 2022). As the situation with the sixth package of sanctions has shown, Russia can find a weak link in the EU and actually block its decision or bring discord. Second, a common or much more coherent fiscal policy (Sapir, 2022). The latest debt crisis in Greece required a lot of money and effort to save the Eurozone (Blanchard & Pisani-Ferry, 2022). Third, the common foreign policy, a part of which is further EU enlargement. For example, one suggests step-by-step accession to the EU in order not to encourage the Balkan states (Emerson & Blockmans, 2022). If adopted, this procedure could also be applied to Ukraine, Georgia and Moldova.

At the same time, the adoption of EU regulations by candidate states could revive the discussion of revising European regulations. Deregulation would make the EU more competitive in comparison with the USA or China.

Babenko et al. (2019) state that deciding to move towards European integration, Ukraine should take a range of measures related to the adaptation of the national social and economic system to European values and standards, as well as set its strategically important goals that would correlate with the strategic objectives of sustainable development of the European Union. At the same time, one should take into account the fact that the development of the national social and economic system in the current conditions is impossible without taking into account the

dynamics and trends in international relations, which are multi-vector and multi-level and are related to politics, economy, finance and social security.

In short, the bigger EU requires more efficient decision-making mechanisms. At the same time, the EU speaking with a single voice can become a much stronger international player (Zhytar, 2020). With the EU based on such values as respect for human rights, freedom and democracy, it will make the world more democratic and secure (democracies are less likely to start wars, see, for example, Mintz & Nehemia, 1993). It has direct consequences for regional and global security. Remember that the EU was based on the very simple idea of preventing a new war in Europe by maximizing the economic interweaving of European countries. It did not work with Russia because it is undemocratic. Thus, it is time to rethink the basic idea of the EU and simultaneously answer other important questions.

The recent request for the special procedure was caused by the war in Ukraine. President V. Zelensky remembered that a range of states, primarily Turkey, have been waiting to join the EU for several years, while accession agreements have been stalled.

Although the EU has been interested in integrated relations with Ukraine since its independence in 1991, it happens only when the region faces crises, for instance, the Orange Revolution of 2004-2005, the 2008 Russo-Georgian War and the Revolution of Dignity in 2013-2014, that the EU has enhanced its interest in the development of political relations with Ukraine (Bélanger, 2022).

Unlike the Association Agreement (AA) and the Deep and Comprehensive Free Trade Areas (DCFTA), EU membership will give Ukraine a presence in the EU institutions: the European Parliament, the European Commission, judges and the attorney general in the European courts. The Ukrainian language will also become an official language of the EU.

Citizens of Ukraine will benefit from the non-discrimination principle, enhanced free movement rights and family rights to move to work, study, settle, retire and receive social security benefits in the EU (Finchelstein et al., 2022).

EU law will have supremacy in Ukrainian courts and will be directly applicable in some cases. In case of meeting the direct action conditions, physical and legal entities (corporations) will be able to defend the EU rights in national courts. Ukrainian courts will be able to apply for preliminary rulings to the Court of Justice of the EU (Emerson et al., 2021).

The EU budget also requires corrections. It would be hard to expect Ukraine to pay the price, but the resources it will likely need for reconstruction after the war will affect the EU's budget priorities. The EU has already established special funds for Ukraine and is likely to ask for external contributions from the global community for a special reconstruction fund to compensate for the burden (EU Law Live, 2022). The issue of reparations and the use of Russian assets, which are now frozen abroad, will undoubtedly be relevant.

As mentioned above, the existing Association Agreements and DCFTA will largely allow duty-free imports of goods to and from the EU. Besides, given that bulk goods, such as agricultural products and raw materials, account for the majority of Ukrainian exports, Russia will be able to keep preventing such deliveries, especially through Black Sea ports.

Event after the cessation of open military activities on land, it will limit the possibilities for rapid expansion of such trade with the EU. With Ukrainian services exports being minimal, the main focus during Ukraine's accession to the EU will be on capital inflows and workforce outflows. In the current condition, we can expect further negotiations on investment standards and Ukraine's ability to root out corruption as part of any accession negotiations. Sources of capital for reconstruction will undoubtedly go beyond the competence of the EU and will include other international organizations and reparations from Russia.

Labor migration issues are complicated by the large number of refugees from Ukraine who are now in EU bordering countries and for whom returning to Ukraine can be a protracted process.

4. CONCLUSION

EU membership will provide Ukraine with economic benefits. In the short run, it will be less of a trade impact, but regularization of migration and migrant wages will be significant.

EU accession will also impose the administrative burden on the already stretched Ukrainian government and parliament, including the need to speed up the implementation of aspects of the EU *acquis communautaire* and monitor compliance with the EU legislation and policy, particularly investment incentives and contracts.

Any accession agreement is likely to contain transitional periods, especially for the full free movement of workforce, and renunciation provisions. It may be symbolic that Ukraine will be granted the EU member status rather than the associate or accession status.

However, the consequences of Russia's invasion of Ukraine and its request for EU membership have changed the perception of the EU's role in international diplomacy. In particular, the EU has realized the necessity to strengthen its own security and solve internal problems: from the consequences of Brexit to dealing with potential violations of the rule of law by Hungary.

The war in Ukraine has become a catalyst for changes throughout Europe, and it can affect the way EU countries and the European Commission address the issues of Ukraine's accession.

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В статті досліджено перспективи інтеграції економіки України у європейський економічний простір. Встановлено, що вступ України до ЄС був би вигідний не лише Україні, а й самому Європейському союзу. Однією з очевидних переваг є безпека: якби Україна зараз не воювала,

російські танки, ймовірно, уже були б у Варшаві чи Таллінні. У мирний час є багато можливостей для співпраці. Очевидними сферами є продовольча безпека та виробництво енергії; крім того, Україна має багато людського капіталу та підприємницького таланту, і вона досить розвинена в ІТ, машинобудуванні та інших галузях, які вимагають високого рівня технічних навичок. Українська культура багата та самобутня. Однак під час вступу зміниться не лише Україна. Сам Європейський союз реформуватиметься у відповідь на нові виклики.

Існуючі угоди між Україною та Європейським союзом вже сприяли значним торговим потокам. Приєднання матиме більші наслідки для свободи руху капіталу та працівників – притоку інвестицій та відтоку міграції. Ці сфери, ймовірно, будуть зосереджені на переговорах.

Певний договір про приєднання, як правило має перехідні періоди, особливо для повного вільного пересування робочої сили, і положення про відмову. Суттєва відмінність буде полягати в тому, що Україні буде надано статус «члена ЄС», а не асоційований чи приєднаний статус.

Наслідки російського вторгнення в Україну та її запит на членство в Європейському союзі змінили роль у міжнародній дипломатії. Європейський союз усвідомив необхідність зміцнення власної безпеки та вирішення внутрішніх проблем – від наслідків Brexit до вирішення ймовірних порушень верховенства права Угорщиною.

Військові вторгнення в Україні стали каталізатором змін у всій Європі, і це може відобразитися на тому, як країни-члени Європейського союзу та Європейська комісія вирішують питання вступу України.

Ключові слова: перспектива, інтеграція, європейський економічний простір.