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Ukraine вetween the EU and the CES in Global Instability*

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ABSTRACT. The article reviews functioning and development of the European Union (EU) and the Common Economic Space (CES) in the global instability and substantiates the equal significance of Ukraine's integration with these regional associations in today's environment. This conclusion is based upon the current state of Ukraine's trade and economic relations with the countries taking part in these integration associations, and the probability of: 1) the EU's abstaining from admitting new members until the EU structure improves, or admitting new members while changing the mechanism of interaction within the EU and setting more stringent admission criteria, 2) changes in the terms of trade of Ukraine with the CES member states due to its transformation into the Eurasian Economic Community (EEC).

KEY WORDS: global instability, the EU development strategy, the EU structure, euro-zone, Ukraine's accession to the EU, the CES development strategy, EEC.

Introduction

The global instability caused by the global financial crisis has resulted in the introduction of changes in the EU's strategy, structure and functioning mechanism. It is mainly about the possibility for some Member States to leave the euro-zone, and the introduction of changes in the integration association management system.

The continuing crisis causes a possibility of updating the EU's social and economic development strategy «Europe 2020: A strategy for smart, sustainable and inclusive growth»)[2], which may affect the Ukraine — EU relations.

There is also a transformation of the Customs Union (CU) of Belarus, Kazakhstan and Russia (established on January 1, 2010) into the CES. During 2010, 17 basic agreements on the CES have been developed and adopted. The CES was launched on January 1, 2012. One of its four components — a common goods market — had already been supported by the existing CU. The preconditions for the formation of the services,

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[2] Andrushkiv B., Stoyko I. «Europe 2020: Ukraine in the context of the seven flagship initiatives,» European integration processes in the society: transformation and development: International Scientific & Practical Conference materials, 22—23 Apr. 2012, Ternopil (Ternopil: TISIT, 2012), p. 170—172.

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capital and labour market started to form in 2012. The CES is expected to become fully functioning on January 1, 2016[1].

The impact of the current global financial crisis on the world economy, the EU, CES, Ukraine and the relations between them has been studied by foreign scientists such as D. Dolgov[2], T. Evans[3], P. Krugman[4], J. Leeman[5], M. Frangakis[6], Yuri Shishkov[7], Ukrainian scientists V. Budkin[8], I. Burakovsky[9], V. Heyts[10], M. Dudchenko[11], Ya. Zhalilo[12], D. Lukianenko[13], Yu Makohon[14], Yu. Pakhomov[15], F. Poruchnyk[16], A. Rumyantsev[17], V. Sidenko[18], A. Filippenko[19], V. Chuzhikov[20],

[1] Mansurov T., «From EurAsEC to the Eurasian Union,» Russian Federation Today No. 23—24 (December 2011): p. 23 — 24. [in Russian]

[2] Dolgov D. S., «The evolution of forms and stages of regional economic integration in the context of globalization,» The Russian Foreign Trade Journal № 6 (2006): P. 8-14. [in Russian]

[3] The deepening crisis in the European Union: The need for a fundamental change. EuroMemorandum 2013. [E-resource]. Access mode: http://www2.euromemorandum.eu/uploads/euromemorandum_2012_francais.pdf

[4] Krugman P. R., The Return of Depression Economics and the Crisis of 2008 (New-York, London: W.W. Norton & Company, 2009), P. 214.

[5] L'intégration européenne à la croisée des chemins: approfondir la démocratie pour la stabilité, la solidarité et la justice social. EuroMemorandum 2012. [E-resource]. Access mode: http://www.euromemo.eu/euromemorandum/index.html

[6] Ibid.

[7] Shishkov Yu., «The euro-zone crisis: conclusions for the architects of the EurAsEC,» *The World Economy and International Relations Journal* № 6 (2012): P. 13-22. [in Russian]

[8] Budkin V., «The methodological aspects of the Common Economic Space,» The global expertise in improving foreign trade in the context of sustainable development, The Foreign Trade Studies Department of the IWEIR NAS of Ukraine. Scientific conference, October 18, 2012 (Kyiv: IWEIR NAS of Ukraine, 2012): P. 3-5.

[9] Burakovsky I. V., *The world economy: Global financial crisis,* Igor Burakovsky, Aleksey Plotnikov (Kharkiv: Folio Publishing, 2010), P. 417. [in Ukrainian]

[10] Heyets V., «The macroeconomic assessment of Ukraine's monetary and currency exchange policy before and during the financial crisis,» Ukrainian Economy № 2 (2009): P. 5-23. [in Ukrainian]

[11] *The current international integration processes:* monograph, A. S. Filipenko (writing team supervisor) V. S. Budkin, M. A. Dudchenko (Kyiv: Znannya Ukrainy Publishing, 2004), P. 304. [in Ukrainian]

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[13] Lukianenko D., «The global management strategies,» Dmytro Lukianenko, Tymur Kalchenko, *International Economic Policy* № 8–9 (2009) P. 5-43. [in Ukrainian]

[14] Makohon Yu., «The exit strategy for Ukrainian economy,» *The Economist* № 6 (2009): P. 28-32.

[15] Pakhomov Yu. N., «Ukraine and Russia between the East and the West,» Yuri Nikolaevich Pakhomov, *The Economic Journal XXI* № 5-6 (2010): P. 3-8. [E-resource]. Access mode: http://www.nbuv.gov.ua/portal/Soc_Gum/ Ech/2010_5-6/1_Pakhomov.pdf [in Russian]

[16] Poruchnyk A. M., *The national interests of Ukraine: economic self-sufficiency at a global level:* monograph (Kyiv: KNEU Publishing, 2008), P. 352. [in Ukrainian]

[17] A. P. Rumyantsev, G. N. Klymko, V. V. Rokocha, *The International Economy*: Coursebook, ed. A. P. Rumyantsev (Kyiv: Znannya-Press, 2003), P. 447.

[18] Sidenko V. R., *Globalization — European integration — economic development: the Ukrainian model*: in 2 volumes, Vol. 2 (Kyiv: 2008): *The European integration and economic development,* V. R. Sydenko, National Academy of Sciences of Ukraine; Institute for Economics and Forecasting (Kyiv: 2011), P. 448. [in Russian]

[19] Filipenko A. S., *Ukraine's international trade relations: genesis and structure* (Kyiv: Znannya Ukrainy Publishing, 2008), P. 223. [in Ukrainian]

[20] Chuzhikov V. I. , *The global regionalism: theory and modern methodology:* Monograph (Kyiv: KNEU Publishing, 2008), P. 272. [in Ukrainian]

O. Shnypko[1], O. Shnyrkov[2] and others. The review of these studies suggests that the EU accession of new member states with varying degrees of development is now particularly sensitive to the effects of the global financial crisis, requires significant changes to its structure and mechanism of interaction between the member states, which makes Ukraine's accession more difficult. There is also an active development of the CES reformatting into the Eurasian Economic Community (EEC).

This publication is aimed to identify the state of the Ukrainian economy as a result of the global economic instability and the circumstances that determine the equal importance of Ukraine's integration with the EU and the CES.

The Lisbon Strategy

At the summit in Lisbon in March 2000, the European Council set a strategic goal for the EU: to become within ten years the world's most competitive economy based on expertise and able to ensure sustainable economic growth accompanied by the creation of new and better jobs and greater social cohesion[3].

Given the targets for economic and social cohesion of the Member States declared in the Treaty establishing the European Economic Community,[4] it is reasonable to assume that reaching the Lisbon strategy goals involved the alignment of economic and social development of all EU member states. However, the strategy was never implemented due to lack of accountability both at the Union bodies and the Member States levels[5]. A considerable difference in the economic and social development of the Member States can be seen in the following data. Among 181 countries rated and calculated by the IMF in terms of GDP per capita based upon the purchasing power parity of the national currencies in 2011, the core EU countries have the following values: the Netherlands — USD 42,183 per capita, the 10th place; Austria — USD 41,822, the 11th place; Sweden — USD 40,394, the 14th place; and the periphery EU countries — Latvia — USD 15,662 and the 57th place; Bulgaria — USD 13,597 and the 69th place; and Romania — USD 12,476 taking the 74th place[6].

[1] Shnypko O. S., *Ukraine's competitiveness in the context of globalization:* abstract of a doctoral (economics) thesis: major: 09.00.03 Economics and National Economy Management (Kyiv: 2008), P. 40. [in Ukrainian]

[2] Shnyrkov O. I., *The European Union in global innovation space:* monograph (Kyiv: the Kyiv University, 2008), p.144. [in Ukrainian]

[3] *Dinen D.*, Ever Closer Union. An Introduction to European Integration, Dinen D., Marchenko M., translated from English (Kyiv: K. I. S., 2006), p. 417. [in Ukrainian]

[4] *A. V. Yermolaev, B. O. Parakhonsky, G. M. Javorska, O. O. Reznikova*, The European project and Ukraine: monograph (Kyiv: NISR Publishing, 2012), p. 34. [in Ukrainian]

[5] *Bordyashov Ye. S.,* «The prospects of the new European Union development strategy — «Europe — 2020,» Journal of the Moscow State Institute of International Relations (MGIMO) 3:24 (2012): p. 108. [in Russian]

[6] List of countries by GDP per capita. [E-resource]. Access mode: http://vid1.rian.ru/ig/ratings/gdp_per_capita_ 2012.pdf

The EU countries also vary greatly by the level of competitiveness. According to competitiveness 2012-2013 ranking calculated by the method of the World Economic Forum (WEF), Sweden takes the 1st place, Finland — the 3rd, the Netherlands — the 5th, Germany — the 6th, Bulgaria — the 62nd, Slovakia — the 71st, Romania — the 78th, and Greece ranks the 96th[1]. It should be noted that the EU member competitiveness lists made in different years by using different methods demonstrate that ranking of the same countries varies significantly. For instance, according to the competitiveness list made by the Management Development Institute in 2002, Finland, Luxembourg and the Netherlands took the 2nd, 3rd and 4th places, respectively, Germany was the 15th, Britain — the 16th, France — the 22nd, Spain — the 23rd, Italy — the 32nd, Portugal — the 33rd, and Greece took the 36th place in the world[2]. According to the WEF growth competitiveness index 2002, Finland took the 2nd place, Sweden — the 5th, Denmark — the 10th, UK — the 11th, Germany — the 14th, the Netherlands — the 15th, Spain — the 22nd, Portugal — the 23rd, Ireland — the 24th, France — the 30th, Greece — the 38th, and Italy — the 39th[3].

L. L. Antonyuk suggests her own countries disposition calculated by their competitiveness based on the macroeconomic and microeconomic indicators, classifies international competitiveness as the integral factor which is most systemic and includes all competitiveness factors at both micro and macro levels, and identifies eight clusters. The 1st cluster includes the following highly competitive EU member states — Finland, Sweden, Denmark, Norway, Iceland, the UK, Germany, the Netherlands; the 2nd cluster consists of Spain, Italy, Ireland, Austria, Belgium, France; the 3rd and the 4th clusters are represented by medium competitive countries — Portugal (first level) and Greece (second level). According this clusterisation, Bulgaria and Romania refer to the 5th and 6th clusters of second level low competitive countries[4].

These data indicate that the Lisbon Strategy failed to reach the main goal of making Europe by 2010 the most competitive economy based on expertise and aligning the member states' economic and social development levels.

The EU 2020 Strategy and Causes of the EU Crisis

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[1]The Global Competitiveness Report 20012—2013. Klaus Schwab, World Economic Forum (Switzerland, Geneva: 2012). [E-resource]. Access mode: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

[2]*Pylypenko I. V.,* Competitiveness by countries and regions in the world economy: theory and expertise of small Western and Northern Europe countries (Smolensk: Oecumene Publishing, 2005), p. 198. [in Russian]

[3] Ibid. — P. 205.

[4] *Antoniuk L. L.*, The competitiveness of national economies in the context of globalization: Doctor of Economics thesis: May 8, 2001(Kyiv: 2004), P. 180. [in Ukrainian]

The financial crisis and economic downturn have made the EU develop a new economic strategy known as «Europe 2020: A strategy for smart, sustainable and inclusive growth»[1]), which was adopted in March 2010 and was to support the member states during the global instability in their returning to sustainable development. However, the strategy did not help the EU to relieve the crisis as evidenced by the state of the eurozone and, in particular, the Greek economy.

We believe that the EU crisis was caused by the EU's deviation from the original targets for the member states economic and social cohesion. The European Union was formed and developed by accession of countries with different levels of economic and social development. This difference was supposed to decrease over time and the EU would consist of the countries with similar economic and social development levels and, therefore, with the same rights and obligations for the state of the EU as a single body, for its place and role in the global economic system. However, the EU formation and development process was accompanied by the differentiation of the EU countries by their rights, in particular, as regards shaping fiscal and monetary policies which are of paramount importance to any market economy.

The current state of the EU indicates that it is a diverse regional structure with the components characterized by different levels of economic and social development and forming two currency zones — the euro-zone countries and the states with their own currencies. In other words, the EU consists of four groups of countries that are in: 1) the core area and euro zone; 2) the core area and the own currency zone; 3) the periphery area and euro zone; and 4) the periphery area and the own currency zone. Considering this EU structure and the significant dissimilarity of its components we can predict with a high degree of probability that the global financial crisis affects the member states to a varying extent. This was also contributed to by the financial system described in the Maastricht Treaty: the success of the ESCB was mainly based on the system's independence from national institutions. Once the ECB was established, the member states were deprived of their ability to pursue independent monetary policies and coordinate material and monetary aspects of production and consumption. At the EU level, there was also the weakening of effective management of economic processes by the EU leaders since they could not directly influence the ESCB activities and, therefore, the financial processes which determine the economic processes in the market.

There is a grounded theory that the absence of effective economic management causes deterioration of the economy and its financial system. Obviously, this statement is also relevant to the EU. In the absence of coordination between the actions of the economic and financial

[1] Europe 2020 — The EU strategy for smart, sustainable and inclusive growth. [E-resource]. Access mode: http://ec.europa.eu/economy_finance/structural_reforms/europe_2020/index_en.htm.

(monetary) bodies, there can be a feedback that will cause worsening of both individual member states and the EU as a whole, which will be accompanied by weaker integration and increased differentiation between the member states.

The reasons of the current crisis in the EU and, in particular, in the euro-zone are described in section The Contradictions and Shortcomings of European Economic Integration Models of the comprehensive monograph published by the National Institute for Strategic Studies[1] and suggesting that «from the very beginning the organization of the Economic and Monetary Union of the EU was based on the approach that included a number of significant drawbacks, which later caused powerful crisis phenomena…; in 1999, Europe was not yet ready for monetary integration, and the single currency was introduced from political considerations rather than economic feasibility. The countries had significant differences in terms of their economic development which could not be eventually levelled... The principal shortcomings of the European economic integration model include *insufficient enforcement of the economic integration requirements.»*[2]. It is also noted that certain specialists have repeatedly highlighted the need for building a new economic and organizational model of the EU to determine different goals and objectives for countries depending on their levels and paces of economic development (the so-called «two-speed model»), and the authors make conclusions about some *EU's problems as to centralized coordination of economic policies in the member states*[3]. For instance, Yu. Shishkov notes that «Jean Delors who headed the European Commission from 1985 to 1995 admitted that the governing bodies of the EU did not have the authority necessary to coordinate the economic policies of the member states»[4]. This confirms the conclusion about the absence of consistency between the activities of the economic and financial (monetary) bodies, which could result in the feedback that will cause a deterioration of the state of the EU.

The current situation of the eu economy

EuroMemorandum 2012. European Integration at the Crossroads: Democratic Deepening for Stability, Solidarity and Social Justice contains the description of the current state of the EU economy. It is based on the results of the discussions and presentations that took place at the 17th Conference dedicated to the alternative economic policy in Europe — European Integration at the Crossroads: Deepening for Stability, Solidarity

[1] *A. V. Yermolaev, B. O. Parakhonsky, G. M. Javorska, O. O. Reznikova*, The European project and Ukraine: monograph (Kyiv: NISR Publishing, 2012), P. 33-38. [in Ukrainian]

[2] Ibid. — P. 33.

[3] Ibid. — P. 35.

[4] *Shishkov Yu.*, «The euro-zone crisis: conclusions for the architects of the EurAsEC,» The World Economy and International Relations Journal № 6 (2012): P. 15. [in Russian]

and Social Justice organized by the EuroMemo Group on September 16—18, 2011 Vienna (Austria)[1].

The EuroMemo 2012 data show a different effect of the crisis on the EU countries depending on their core or periphery Euro-zone status. Particularly noteworthy are the euro-zone periphery countries such as Greece, Spain, Portugal and Italy. It was the development of the economic processes in these countries that caused the euro-zone's global instability and limited its ability to expand leading to narrowing or even collapse of the euro-zone[2]. The euro-zone crisis threatens the future of European integration; the EuroMemo 2012 summary states further suggesting that instead of limiting the power of the financial institutions which caused the crisis European authorities have introduced restrictions for Greece and other peripheral euro-zone countries. It is emphasized that the centralization policy introduced by the EU leads to rigid fiscal discipline for the member states and can undermine democracy in the EU and, therefore, contributes to disintegration. The EuroMemo 2012 reviews the actions of the EU authorities and statistics to prove that the current policy of finding for the euro-zone a way out of the crisis can change the EU structure, strengthen the core countries such as Germany and France, and weaken the role of the periphery. Such increased restrictive policy can result in a reduction of production which, despite of some recovery in 2011, has not reached the pre-crisis levels in many countries. In general, the EuroMemo 2012 indicates that the EU's basic steps to overcome the crisis are purely financial in nature and aimed at minimizing losses put the EU banking system through the reduction of income and welfare costs of the general population of the euro-zone countries and eventually of the rest of the EU. This is confirmed by the increased role of the ECB and its new status as a lender of last resort. However, the EuroMemo 2012 notes that there is an increased resistance to this policy both in the euro-zone and in other countries.

The summary of the EuroMemo 2012 were confirmed a year after its adoption in the discussions and speeches at the 18th Conference on Alternative Economic Policy in Europe: The deepening crisis in the EU: the need for a fundamental change in policy. In particular, the participants suggested that the tough restrictive policies carried out in Greece will eventually extended to other EU member states leading to social deterioration and weaker democracy. It was about the consolidation of the European resistance to the current government policy, as well as the increased role of trade unions in the fight against

[1]L'intégration européenne à la croisée des chemins: approfondir la démocratie pour la stabilité, la solidarité et la justice social. EuroMemorandum 2012. [E-resource]. Access mode: http://www.euromemo.eu/euromemorandum/ index.html

[2]The EU should be prepared for a possible euro-zone collapse — Foreign Minister of Finland. [E-resource]. Access mode: http://www.vedomosti.ru/finance/news/2012/08/17/2993371; Makarchev V. The euro-zone is entering a new phase of the growing financial crisis after four days of optimism. [E-resource]. Access mode: http://www.itar-tass.com/c188/466668,html

limitation programmes, in particular via strikes. In 2012, production was still at the level lower than that of 2007; the official unemployment rate continued to grow while the actual wages remained at the same level or decreased. The restrictive policy caused a drop in production in Italy, Spain but to the largest extent in Greece. Particular attention was paid to the decision to form the European Banking Union in June 2012 which is considered to be the biggest innovation in the EU architecture is expected to create a common European mechanism for the euro-zone[1]. This suggests that, as before, in addressing the euro-zone crisis the EU mainly focuses on finance while the material part of production remains unattended.

The Euro and US Dollar Competition — the Reason of the Current Situation in the EU

It can be assumed that the Lisbon Strategy 2000 set for the EU the goal to achieve the same economic power as the United States have, and to make euro the global currency that could compete with the US dollar. This would strengthen the financial stability of the EU, as D. G. Lukianenko, one of the leading Ukrainian specialists in the international affairs, says that «the effects of the financial crises depend on the degree of integration of national financial markets in the global capital markets: the higher the level is, the more vulnerable a national economy is to external risk factors. On the other hand, the countries which have a reasonable control of the capital movement and limited access to international financial markets are immune to the financial crisis infection»[2]. Moreover, the following peculiarities of these processes should be taken into account: 1) financial globalization has a «mainly speculative — and in the current situation — a virtual nature»[3]; 2) there is a «super-fast spreading of the «crisis infection» at the international, regional and global levels»[4]. At the beginning of the 21st century, the US-EU economy growth ratio made against the EU[5]. «The European Union cannot yet narrow the traditional gap with the United States», — also noted the leading international affairs specialists of Ukraine headed by the Ukrainian NAS Academician O. G. Bilorus[6].

[1] The deepening crisis in the European Union: The need for a fundamental change. EuroMemorandum 2013. [E-resource]. Access mode: http://www2.euromemorandum.eu/uploads/euromemorandum_2012_francais.pdf

[2] *Lukianenko D. H.*, The global economic integration: monograph (Kyiv: Natsionalny Pidruchnyk LLP, 2008), P. 105. [in Ukrainian]

[3] *Lukianenko D.*, «The global modification of competitive market mechanisms,» Dmytro Lukyanenko, Olena Titova, International Economic Policy № 12—13 (2011): p. 6. [in Ukrainian]

[4] *Lukianenko D.*, «The global management strategies,» Dmytro Lukianenko, Tymur Kalchenko, International Economic Policy № 8– 9 (2009): p. 9.

[5] *Zakharova N. V.*, «The EU: from the Lisbon Strategy to the Lisbon Agenda,» Modern Europe № 3 (2008): p. 48-49. [in Russian]

[6] *Bilorus O. G.*, The EU global strategy: monograph, O. G. Bilorus, Yu. M. Maceiko, I. I. Viter; ed. O. G. Bilorus. (Kyiv: KNEU Publishing, 2009), p. 151. [in Ukrainian]

The current global financial crisis has further complicated and weakened the situation of the EU as one of the three centers of the world economic system[1]. Dollar and euro compete in the global financial market. Under the undisputed dominance of US dollar, euro seeks to win a certain share of the world market. It should be considered that while US dollar is at least formally based on the US economy, euro is only underpinned by the economies of the EU member states that form the euro-zone. The general instability of the global economy suggests that though the global financial crisis originates from the USA, its effects have made euro lose in competition with US dollar. This is naturally demonstrated by the weaker economic basis of euro — the euro-zone — where the situation is so critical that some countries, notably Greece, start thinking about leaving the euro-zone. This makes the EU's strategic goal of alignment of development and respectively accession to the euro-zone of its core member states. This alignment in the contest of today's global instability can cause resistance from the EU core countries which will be responsible for raising the level of economic and social development of the periphery, and can be accompanied by a significant loss for them potentially causing social tension and instability in the core states. We should also consider that under degradation certain EU core countries can move to the periphery, and some euro-zone states can leave it. This will lead to disintegration and increased differentiation of the EU member states. These structural changes can be initiated by the leading core and euro-zone countries that will not want to maintain the current EU structure at their own cost. However, according to the opinion of the leading Ukrainian specialists in international affairs D. G. Lukianenko and A. M. Poruchnyk in respect of the reasonability of strengthening the countercyclical regulation of transferring to the global level a part of national governments' competence related to economic activity control[2], increased centralization of the EU control should be considered scientifically sound.

The EU Development Prospects

If we review the formation and development of the EU, we can conclude that the current EU structure can significantly change as a result of imbalances in its control by the economic and financial (monetary) authorities, as well as a result of the conflict of interests of the EU as a whole body and some of the most advanced core and euro-zone countries. Such changes can be mainly caused by the external factors, which are

[1] Ibid. — p. 423—425.
[2] *D. H. Lukianenko, A. M. Poruchnyk, Ya. M. Stolyarchuk*, Countercyclical regulation of market economy: globalization perspective: Monograph ed. D. H. Lukianenko, Dr. Econ., Prof. and A. M. Poruchnyk, Dr. Econ., Prof. (Kyiv: KNEU Publishing, 2010), P. 7. [in Ukrainian]

confirmed by the processes currently taking place in the EU as a consequence of the 2007 global financial crisis and which naturally became the object of the study of Yuri Shishkov, the leading Russian specialist in international affairs[1], who views these processes from the Eurasian integration perspective.

The summary of the EuroMemo 2012 states that the euro-zone crisis poses a threat to the European integration[2]. This is also confirmed by the expected scenarios of crisis in the euro-zone and the EU's anti-crisis reforms proposed in the monograph of the National Institute for Strategic Studies[3].

The first scenario includes maintaining the *status quo*. The euro-zone members will lose nearly all their financial and fiscal sovereignty and transfer control of national finance to interstate and supranational institutions. The EU-17 will gradually transform into a federal state.

The second scenario is based on the conclusion that the EU will not be able to maintain the *status quo*, and after a period of serious upheaval become a fundamentally different integration body. Several options of the euro-zone collapse have been considered. Having analyzed these options and measures aimed to address the euro-zone crisis, we concluded that it is particularly important that the ECB will eventually become a full-fledged central bank functioning as lender of last resort. The monograph refers to the prospects of transfer from the liberalization policy to more stringent regulation and stronger supranational aspect of the integration community[4].

The above confirms the conclusion about the possible formation of a positive feedback which — according to the classical management theory — can be only overcome with more centralized control. This also confirms the success reached by US President Franklin D. Roosevelt in fighting the Great Depression 1929—1932, which is similar to and even surpassed by the current global crisis since the level of instability of the present global economic situation «can be obviously considered unprecedented»[5]. It should be also mentioned that Roosevelt's New Deal (1933—1938) included the influence of the state on determining the production, price, wages levels and the working hours. The goal was to streamline production, bring it in line with

[1] *Shishkov Yu.*, «The euro-zone crisis: conclusions for the architects of the EurAsEC,» World Economy and International Relations Journal № 6 (2012): p. 13—22. [in Russian]

[2] L'intégration européenne à la croisée des chemins: approfondir la démocratie pour la stabilité, la solidarité et la justice social. EuroMemorandum 2012. [E-resource]. Access mode: http://www.euromemo.eu/euromemorandum/index.html. — P. 1.

[3] *A. V. Yermolaev, B. O. Parakhonsky, G. M. Javorska, O. O. Reznikova*, The European project and Ukraine*:* monograph (Kyiv: NISR Publishing, 2012), p. 38—51. [in Ukrainian]

[4] Ibid. — P. 51.

[5] *D. H. Lukianenko, A. M. Poruchnyk, Ya. M. Stolyarchuk*, The global economy of the 21st century: the human dimension*:* monograph, ed. D. H. Lukianenko, Dr. Econ., Prof. and A. M. Poruchnyk, Dr. Econ., Prof. (Kyiv: KNEU Publishing, 2008), P. 51. [in Ukrainian]

consumer demand[1], i.e. **coordinate the monetary and material aspects of production and consumption processes**, which requires certain efforts from the international and European institutions to overcome the current crisis.

Prospects of Accession of Ukraine to the EU

We should note the EuroMemo 2012 view of the processes taking place in the euro-zone, the prospects of the candidate countries accession to the EU and relations with the neighbourhood countries such as Ukraine and Belarus. In general, the expectations of their accession to the EU are restrained, especially as regards Belarus. It is believed that Ukraine pursues the multi-polar foreign policy in its relations with the EU and Russia[2].

After initialling the EU-Ukraine Association Agreement on March 30, 2012, including the Deep and Comprehensive Free Trade Area, Ukraine and the EU are on the verge of signing of the Agreement[3]. However, this does not allow concluding that Ukraine accession to the EU becomes closer. «The European Union is more likely to continue refusing Ukraine to include in the new agreement the provision about the possible future membership. This is explained by both the current situation in Ukraine and the problems in the European Union»[4].

In light of the processes taking place in the EU under the global instability and posing a threat of expanding the periphery and the own currency zone, i.e. the European disintegration[5], it is very likely that the EU will refrain from admitting new members until the EU structure is improved by cutting the periphery and own currency zone and expanding the core and euro-zone, or it will admit new members making structural changes in the mechanism of interaction between the core and periphery, the euro-zone and own currency zone, and will set stricter admission criteria.

Should the EU accept the first of the two strategies, Ukraine's accession to the EU will be delayed for a period of the EU structural improvement. If the EU uses the second strategy of its structural development, Ukraine's accession to the EU will become much more dependent on its political and economic development since there can be a significant change in the mechanism of interaction within the EU and in the admission criteria that can considerably modify the conditions and consequences of Ukraine's accession to the EU.

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[1] The global economic crisis1929-1932 and F. D. Roosevelt's New Deal. E-resource. Access mode: http://school.xvatit.cjm/index.php?title=мировой_экономический_кризис_1929-1932гг._и_«Новый Курс»_Ф. Д._Рузвельта [in Russian]

[2] L'intégration européenne à la croisée des chemins: approfondir la démocratie pour la stabilité, la solidarité et la justice social. EuroMemorandum 2012. [E-resource]. Access mode: http://www.euromemo.eu/euromemorandum/index.html. — P. 33.

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[4] *Sydoruk T. V.*, The EU Neighbourhood Policy in Eastern Europe: the integration without membership model: monograph (Lviv: PAIS Publishing, 2012), p. 223. [in Ukrainian]

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Undoubtedly, the accession to the EU should not be an end in itself for Ukraine — it should aim to achieve the European economic standards[1]. The leading Ukrainian specialists in international affairs state that «a united Europe (EU) is not ready for a full integration of Ukraine into the European structure»[2], and the list of Ukraine's strategic economic imperatives for a period up to 2025 contains the following: «9. Since Ukraine's formal membership in the EU is objectively delayed, it is important to ensure the country's European integration before it acquires a formal membership, or even without any formal membership»[3]. It is only possible for Ukraine to become a member of the free trade area together with the EU member states.

Ukraine and the CES Formation

During the summit of heads of the CIS states of September 18-19, 2003 in Yalta, Presidents of Belarus, Kazakhstan, Russia and Ukraine on September 19, 2003 signed the Common Economic Space Agreement[4] and adopted the Concept of Formation of the Common Economic Space (CES). Ukraine signed the Agreement with a reservation that it will take part in the formation and functioning of the CES to the extent that there is no conflict between the Agreement and any of the provisions of the Constitution of Ukraine. On April 20, 2004, the CES Agreement was ratified by the Verkhovna Rada of Ukraine with a reservation that Ukraine will take part in the formation and functioning of the CES to the extent that there is no conflict between the Agreement and any of the provisions of the Constitution of Ukraine. Presently, Ukraine is not a member of the Customs Union, which according to the decision taken by Presidents of Belarus, Kazakhstan and Russia on November 27, 2009 was supposed to transform into the CES before its launch. Therefore, the CES Agreement ratified by Ukraine on April 20, 2004 has lost its importance.

The Customs Union management invited Ukraine to take part in the formation of the Union. In 2003—2004, Ukraine limited its participation in the CES to the free trade area. Therefore, it is natural that Ukraine refused to join the CU and especially the CES: Ukraine's key integration goal is to join the EU which would become impossible in case of the country's accession to the CU[5]. At the same time, Ukraine admitted the possibility of collaboration with the CU and, therefore, with the CES under a confusing

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[1] *Andriushkina Ye. A.*, «Prospects of Ukraine's accession to the European Union,» The economic theory in globalised economy. Abstracts of reports and presentations, 4th Ukrainian Scientific and Practical Conference of Students and Young Scientists (March 14-15, 2012), ed. Dmytrychenko L. I., Dr. Econ., Professor (Donetsk: South-East, 2012), P. 128. [in Russian]

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[3] Ibid. — P. 11.

[4] The Common Economic Space Agreement. [E-resource]. Access mode: http://zakon2.rada.gov.ua/laws/show/ 997_990

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theoretical 3 + 1 scheme which was not accepted by the CU management. It should be noted that both Ukrainian and Russian scientists underline that the CES efficiency largely depends upon Ukraine's participation and reasonability of such participation for both parties[1].

On November 18, 2011, Presidents of Belarus, Kazakhstan and Russia signed the Declaration on Eurasian Economic Integration which stated that the further integration will be mainly targeted on the improvement and development of the legal basis of the CU and CES, and the next stage will be aimed at the formation of the Eurasian Economic Union including the agreement on a balanced macroeconomic, fiscal and competition policies, structural reforms of labour, capital, goods and services markets, and building Eurasian energy, transport and telecommunications networks. This opened the way to the formation of the Eurasian Union[2]. The parties also signed the Agreement on the Eurasian Economic Commission (EEC) and the EEC Regulations. The EEC is expected to become a permanent supranational regulatory body. Unlike the Commission of the Customs Union the EEC will have two management levels: the Commission Council (consisting of one representative from each Party, the deputy heads of governments) and the Commission Board (consisting of three representatives from each Party). The EEC will within its scope of powers make the decisions binding upon the Parties. The decisions will be passed by the voting members of the Commission Council or the members of the Commission Board. Each member of the Commission Council as well as each member of the Commission Board will have one vote. The decisions of the Commission Council will be passed by consensus, and the decisions of the Board — by a qualified majority of 2/3 vote. Such decision-making mechanism fully eliminates the dominance of any country[3]. It has been suggested that the Eurasian Union can be formed by the end of 2013[4]. In the future, the EEC will introduce a single currency, central bank and even a single language[5].

A package of the international treaties that define the principles of the CES work came into force on January 1, 2012. The package consists of 17 documents that are to be ratified by the member states. Early in 2012, the Eurasian Economic Commission was launched to replace the Customs Union Commission. As of the end of March 2012, the parties undertook to sign the EEC Agreement by January 1, 2015.

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[1] Zagashvili V., «The regional vector of Russian integration policy,» *World Economy and International Relations* № 5 (2012): p. 15-26; Where and with whom? Proceedings of the joint study of the Institute for Economics and Forecasting, the National Academy of Sciences and the Institute of Economic Forecasting of the Russian Academy of Sciences, 2000 (December 23, 2011), B4-B5; «The economic crisis in Russia: expert opinion,» *Problems of Economics* № 4 (2009): p. 4—30. [in Russian]

[2] Sarychev V., «A union beneficial to everyone. Belarus, Russia and Kazakhstan are to form a new economic and political centre of power in Eurasia,» *Economy of Belarus* № 4 (2011): P. 6. [in Russian]

[3] Mansurov T. Op. cit. — P. 25.

[4] Sarychev V. Op. cit. — P. 6.

[5] Zagashvili V. Op. cit. — P. 25.

In December 2012, the next summit of the EurAsEC and the Supreme European Council took place. Nearly all decisions taken during the summits in one way or other touched a number of issues as to reformatting the Eurasian integration association into the Eurasian Economic Community (EEC) by the end of 2015[1].

The Economic Relations of Ukraine with the EU and CES Countries

Therefore, Ukraine is facing the issue of choosing the free trade area with the EU or accession to the Customs Union which has already transformed into the CES and is expected to further transform into the EEC. Given that the integration forms — the Free Trade Area and Customs Union — regulate trade in goods and do not cover trade in services, and Ukraine's trade in goods share in all trade in goods and services in 2012 was 88.35 %, we are now going to review the trade and economic relations of Ukraine with the EU and CES member states in terms of trade in goods.

The EU countries consume a large part of Ukrainian exports and a significant part of Ukrainian imports includes the products of these states (see Table 1).

Table 1 **Changes in the share of Ukrainian exports and imports of goods from/to the EU countries in Ukrainian exports and imports of goods**[2],%

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports	33.9	35.5	37.7	33.7	29.9	31.5	28.2	27.1	23.9	25.4	26.3	24.8
Imports	30.1	32.4	34.2	32.9	33.7	36.0	36.7	33.8	33.9	31.4	31.2	30.9

Trends $y_{ex} = -1{,}1528x + 37{,}318$; $y_{im} = -0{,}0545x + 33{,}455$.

The trade and economic relations of Ukraine with the EU countries are mainly developing due to imports stimulating the integration processes. The exports and imports in the context of growth in trade turnover between Ukraine and the EU states (27) results in the transformation of surplus into deficit with persistent increase in the latter (see Table 2).

Table 2 **Changes in the Ukraine-EU trade balance**[3]**,** mln US dollars

[1] Ukraine and the integration processes in the post-Soviet space: alternatives modelling: Analytical report, Klymenko I. V., Kharazishvili Yu. M., Sharov O. M., Us I. V. (Kyiv, NISR Publishing, 2013), P. 4. [in Ukrainian]

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[3] Ibid.

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Balance	758.2	870.8	820.9	1462.2	–1958.5	–4106.7	–8302.3	–10 738.9	–5893.4	–6049.3	–7782.9	–9075.1

The changes in the Ukraine-EU integration processes (Table 3) were calculated by using the integration (disintegration) coefficient[1] and indicate that there is a trend towards the reduction in the Ukraine-EU integration coefficient, i.e. the trend of trade in goods disintegration of Ukraine and the EU countries.

Table 3 **Changes in the Ukraine-EU trade in goods integration (disintegration) coefficient**[2]

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
k_i	1.063	1.063	1.056	0.93	0.96	1.064	0.97	0.94	0.95	0.98	1.009	0.97

Trend: $y = -0.0073x + 1.0439$.

Ukraine’s structure of exports to the EU countries (it is based on raw materials and semi-finished products) requires an immediate move towards a significant increase in added value products. Ukraine’s participation in the European science-based high-tech markets must be substantially strengthened.

Unlike exports, Ukrainian imports from the EU mainly include the value added products such as pharmaceuticals, polymers, plastics, boilers, machinery, instruments and mechanical appliances, electrical tools and equipment, ground vehicles, except rail vehicles. Engineering products have the greatest share. However, a significant part of machinery imports is represented by ground vehicles, except rail ones, namely cars that are not really instrumental in improving the technological level of the Ukrainian industry.

The CES countries consume a large part of Ukrainian exports of goods and supply a significant part of Ukrainian imports (Table 4).

Table 4 **Changes in the share of Ukrainian exports and imports of goods from/to the CES countries in Ukrainian exports and imports of goods**[3], %

[1] Radzievska S. O., Competitiveness and integration prospects of Ukraine (Kyiv.: Znannya Ukrainy Publishing, 2012), p. 71. [in Ukrainian]

[2] Calculated by the author by using: The geographical structure of exports and imports of goods. The State Statistics Service of Ukraine, 1998-2012. Last updated: 6/06/2011. [E-resource]. Access mode: http://www.ukrstat.gov.ua/operativ/operativ2005/zd/zd_rik/zd_u/gs_u.html; Foreign trade of Ukraine: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2012), p. 102 [E-resource]. Access mode: http://www.ukrstat.gov.ua/; Foreign trade balance of Ukraine. Express release. The State Statistics Service of Ukraine. 15/02/2013 No.08.2-27/18. [E-resource]. Access mode: http://www.ukrstat.gov.ua/. [in Ukrainian]

[3] Calculated by the author by using: Ukraine’s foreign trade in 2001, Vol. 1: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2002), P. 146; Ukraine’s foreign trade in 2002-2007: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2008), P. 108; Ukraine’s foreign trade in goods and services in 2008, Vol. 1: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2009) P. 168; Ukraine’s foreign trade in goods and services in 2009, Vol. 1: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2010), P. 167; Ukraine’s foreign trade in goods and services in 2011, Vol. 1: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2012), P. 170; Ukraine’s foreign trade: Statistics digest, State Statistics Service of Ukraine (Kyiv: 2012), P. 102 [E-resource]. Access mode:

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports	24.8	20.3	21.5	21.6	26.4	27.9	31.8	29.4	28.1	32.3	34.5	32.5
Imports	43.7	41.0	41.2	45.1	38.7	35.5	32.9	29.6	37.3	42.0	42.4	40.1

Trends $y_{ex} = 1{,}1661x + 20{,}012$; $y_{im} = -0{,}3157x + 41{,}177$.

Due to the development of trade and economic relations with the CES, in particular, with Russia, Ukraine receives energy and demand for its manufactured products and — which is particularly important in the context of Ukraine's economy transition to the innovative investment development model — for Ukrainian machinery products. The trade turnover between Ukraine and the CES countries demonstrates a growing negative balance (Table 5).

Table 5 **Changes in the Ukraine-CES trade balance[1],** mil. US dollars

Years	2001	2002	2003	2004	2005	2006
Balance	–2845.4	–3312.9	–4523.4	–6008.1	–5881.8	–5308.2
Years	2007	2008	2009	2010	2011	2012
Balance	–4306.7	–5656	–5790.3	–8904.1	–11420.5	–11639.5

The changes in the integration processes between Ukraine and the CES countries (Table 6) show that there is a trend towards an increase in the Ukraine-CES integration coefficient, i.e. a trend of Ukraine's integration with the CES states.

Table 6 **Changes in the Ukraine-CES trade in goods integration (disintegration) coefficient[2]**

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
k_i	0.91	0.89	1.03	1.043	1.003	0.98	1.013	0.91	1.12	1.14	1.032	0.95

Trend: $y = 0.0092x + 0.942$.

In general, the CES countries are the major consumers of Ukrainian engineering products. For instance, in 2012 the CES countries imported: 71.6 % of Ukraine's exports of tools, cutlery; 71.5 % — other items of base metal; 68.5 % — boilers, machinery, devices and mechanical appliances; 41.8 % — electrical machinery and equipment,

http://www.ukrstat.gov.ua/; Foreign trade balance of Ukraine. Express release. The State Statistics Service of Ukraine. 15/02/2013 No.08.2-27/18. [E-resource]. Access mode: http://www.ukrstat.gov.ua/; Ukraine's foreign trade in goods in 2012. Express release. The State Statistics Service of Ukraine. 14.02.13 No.08.2-27/16. [E-resource]. Access mode: http://www.ukrstat.gov.ua/.[in Ukrainian]

[1] Ibid.

[2] Ibid.

89.3 % — rail or tram engines, road equipment; 83.0 % — ground vehicles, except rail ones; 21.6 % — aeronautical or space vehicles; 26.5 % — sea or river vessels; 58.3 % — tools and instruments[1]. **In 2012, Belarus, Kazakhstan and Russia consumed 64.6% of all Ukrainian high-tech exports** (codes of goods according to the Ukrainian Classification of Goods for Foreign Trade (UKTZED) — 82—91)[2]. **64.9% of innovative products sold in 2011 by Ukrainian companies abroad were sent to the CIS countries**[3].

Given the deterioration of the situation in both the Ukrainian mining and metallurgical complex and sale of its products on the world market, and taking into account the opinion the industry's experts who state: «The further balanced development of Ukrainian ferrous metallurgy is impossible without a substantial reorientation of steel products sale from exports to the domestic market»[4], it is obvious that the role of Belarus, Kazakhstan and Russia as consumers of Ukrainian engineering products will grow.

Conclusions

The above statistics and their analysis suggest that in the context of Ukraine's transition to the innovative investment model in the global financial crisis and energy price rise, the development of trade relations with the EU and the CES become at least equivalent. According to some researchers, «given the serious worsening of the economic situation in some of the EU countries, the European crisis has stimulated the discussions on the future of the European integration project as such. Therefore, the following questions become critical for Ukraine: is the economy of the European Union viable, are there any prospects for the country's European integration strategy...?»[5] Under these conditions, the possible Ukraine's accession to the Eurasian Economic Union has a new look.

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