

**Socioeconomic Development of
Ukraine's
agricultural sector in the context of
foreign
economic strategic choices***

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Abstract. This article examines the preconditions and specifics for developing Ukraine's foreign economic strategy and generalizes the experience of other countries in the impact of their strategies on their integration into the European Union and the development of their agricultural sector. The author evaluates the advantages and disadvantages of the main aspects of Ukraine's international economic integration and considers the scope of choices for the country's foreign economic strategy. She emphasizes the need to deal comprehensively with the integration of the agro-industrial complex (AIC), to use the available potential of the AIC more efficiently, to remove flaws in the legal framework and contradictions in the development of the national economy, and also considers the value of implementing an integration policy with more consideration of the country's economic interests.

Key words. Globalization, integration, quotas, customs policy, food safety.

Introduction

* This article was translated from its original in Ukrainian.

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The development of the modern world is evolving with the liberalization and globalization of the economy: this is an objective and irreversible process. The world economy today can be called an integrated economic system made up of national economies that are interrelated with one another in a network of linkages at different levels. Ukraine's geographic location (unique indeed) is closer to the countries of the European Union than to the countries of the former Soviet Union. It is a transit point between West and East. Ukraine's problem is how to identify an integration strategy for its development: in what direction should the country's economy develop – in compliance with agreements of the Single Economic Space (SES)? the European Union (EU)? or remain independent of any associations of countries?

It should be emphasized that on these issues the rural population is the least informed but with the most at stake. The agricultural sector holds a leading place in Ukraine's economy despite the gradual shrinkage of its share in the economy, given that providing people with food has been and remains the priority objective of the domestic policy of every country. It is precisely the competitiveness of Ukraine's agricultural sector on which will depend whether the country preserves its unique domestic food market or whether it will remain an exporter of raw materials and an «access point» for products of low cost and poor quality. This article examines the advantages and disadvantages of Ukraine's accession to one or another alliance and what every citizen will gain from the globalization of Ukraine's economy.

It is common knowledge that economic integration of the agricultural sector reduces the production costs of agricultural produce owing to the better use of available resources. This is achieved due to the principle of comparable advantages and the free movement of production factors. A country specializes in the output of such types of products it can produce at lowest cost and under the effect

of integration market forces to provide the population with inexpensive and quality products¹.

Ukraine's agricultural sector has a rather significant resource potential: almost a quarter of the world's black earth, an industrious and highly skilled labor force, and advantageous geopolitical location. Agricultural products account for 12-13 % in Ukraine's overall exports, which is much higher than in many member countries of the World Trade Organization (WTO), and experts predict that the share will gradually grow after Ukraine accedes to the WTO². In 2005 this country was among the five largest exporters of grain³. This is proof enough that Ukraine's AIC has the required factors for entering the world economy as prominent link in the food chain.

Currently, Ukraine's AIC faces the following problems: declining export earnings, shrinkage in its export potential, slow down in its export development caused by restrictions in fuel and energy supply to raw resources sub-complexes that specialize in the output of products for export⁴.

Successful foreign economic activity depends very much, first, on identifying a development strategy and, second, on being capable of generalizing national experiences and practices, comparing it with foreign experiences, becoming aware of achievements and shortcomings, and outlining prospects.

¹ *Ekonomicheskiye posledstviya trgovli selkhoztovarami v Polshe posle yee vstuplenia v ES.* [K.Vengliazhi, M.Bereza. Economic Consequences of Trade in Agricultural Products in Poland after its Accession to the EU. *AIC Economics*, 2005, No.2, pp. 126—132].

² *Vstup Ukrainy do SOT: novy vykyk ekonomichniy reformi.* [Ukraine's Accession to WTO: New Challenge to Economic Reform. Edited by I.Burakovsky, L.Khandrikha, L.Hoffman. Kyiv, 2003, p. 223].

³ *Osoblyvosti harmonizatsii podatkovoho zakonodavstva v konteksti vymoh Yevropeiskoho Soiuzu.* H.Dmyterko. Specifics of Harmonization of Tax Legislation within the Context of the Requirements of the European Union. *NADU Herald*. 2003, No. 4, p. 238].

⁴ *Problemy vstupu Ukrainy do Yevropeiskoho Soiuzu.* [V.Vlasov, R.Sabluk. Issues of Ukraine's Accession to the European Union. *AIC Economics*, 2005, No.2, pp. 132—137].

Ukraine's wavering between «East» and «West» is not entirely misplaced at the moment because once Ukraine's trading partners become members of one or the other economic union, it might find itself in a trading-economic isolation that could have catastrophic consequences. An example in point was the problem of meat and dairy exports to Russia. Ukraine must integrate into the world economy and therefore all positive and negative integration processes should be identified to use the potential opportunities and counteract their dangers.

At the present time Ukraine has two possible orientations for its into the world economy: accession to the WTO and EU, or deeper integration with Russia, Belarus and Kazakhstan within the framework of the SES.

Issues Pertaining to Ukraine's Integration into the EU

The EU is the world's largest integrated association, the purpose of its establishment being the promotion of prosperity and higher standards of living for the people of Europe⁵.

Several years ago Ukraine stated the priorities of its foreign policy and its official course for European integration. On March 1998 the Partnership and Cooperation Agreement between Ukraine and the EU came into force. On June 11, 1998 the president of Ukraine approved the Strategy for Ukraine's Integration into the European Union and on September 14, 2000 the Program for Ukraine's Integration into the EU. In May 2002, in his address to the Ukrainian parliament («European Choice. Conceptual Principles of Ukraine's Strategy of Economic and Social Development for 2002-2011») the head of state identified the objectives achieved concerning domestic preconditions for Ukraine's full membership

⁵ *Osoblyvosti harmonizatsii podatkovoho zakonodavstva v konteksti vymoh Yevropeiskoho Soiuzu.* H.Dmyterko. Specifics of Harmonization of Tax Legislation within the Context of the Requirements of the European Union. NADU Herald. 2003, No.4, p. 238].

into the EU⁶ as the core of the country's economic and social strategy for the next ten years.

On June 14, 2004 the EU Council adopted a strategic document, its Neighborhood Policy, to: convert relations from cooperation to integration (also by attracting partners to the internal market of the EU), raise the level and intensity of the political dialogue, promote investment, economic growth and reduce unemployment by consistently removing trade barriers, unify trade legislation and reciprocal access to economies, substantially increase available funds to finance the implementation of actions (by introducing new financial instruments), provide technical assistance, etc.

Today the main political course of the EU is to enhance relations with Ukraine within the framework of its Neighborhood Policy on the basis of the Ukraine-EU Action Plan approved on February 21, 2005 that provides for simplifying the visa regime and creating a free trade zone. Ukraine's strategic goal is to raise national living standards and its democratic principles to a European level so as to facilitate the country's accession to the EU⁷.

But the overwhelming majority of the EU members are not prepared to acknowledge Ukraine's readiness for EU membership because of internal political events in Ukraine, its participation in the economic integration processes of the CIS countries, political indecision and domestic confusion, all of which breeds distrust in the country's desire for European integration.

Therefore, setting a definite political course and effecting reform to bring the country's economy up to European standards is the top-priority objective of Ukraine's ambition to join the EU. At this new

⁶ *Stan ta perspektyvy rozvytku vidnosyn mizh Ukrainoiu ta Yevropeiskym Soiuzom*. [Status and Prospects of Development of Relations between Ukraine and the European Union. *Security of Vital Activity*. 2005, No.7, pp. 4—7].

⁷ *Osoblyvosti harmonizatsii podatkovoho zakonodavstva v konteksti vymoh Yevropeiskoho Soiuzu*. H.Dmyterko. Specifics of Harmonization of Tax Legislation within the Context of the Requirements of the European Union. *NADU Herald*. 2003, No.4, p. 238].

stage of development, a decisive step of the government would be to create favorable institutional preconditions to achieve the objectives of European integration and asserting in Ukraine a socially oriented structural-innovational model of development⁸. At a joint press conference with the Minister of Foreign Affairs of Ukraine, Borys Tarasiuk, in June 2005, the EU High Commissioner Javier Solana pointed out that Ukraine is undergoing positive political and economic development and stressed the importance of Ukraine's membership in the WTO, since it opens Ukraine's way to the world economy. He was convinced that although it will produce certain problems, there will be much more positive than negative results from Ukraine's accession to the WTO⁹.

Of special importance now is to evaluate Ukraine's economic capacities to adapt to the terms of the WTO and protect the economic interests of Ukrainian commodity producers, including agricultural¹⁰. It is also important to study the details for meeting WTO requirements for liberalization and protectionism in foreign trade of agricultural products, since the integration of Ukraine into the world economy will be an ever more manageable government process of transforming agriculture on the principles of the WTO¹¹.

Accession to the WTO and integration of the country's agricultural market into the world products market requires a transformation of the

⁸ *Osoblyvosti harmonizatsii podatkovoho zakonodavstva v konteksti vymoh Yevropeiskoho Soiuzu*. H.Dmyterko. Specifics of Harmonization of Tax Legislation within the Context of the Requirements of the European Union. *NADU Herald*, 2003, No.4, p. 238].

⁹ *Problemy vstupu Ukrainy do Yevropeiskoho Soiuzu*. [V.Vlasov, R.Sabluk. Issues of Ukraine's Accession to the European Union. *AIC Economics*, 2005, No.2, pp. 132—137].

¹⁰ *Ahrarny proteksionizm i vilna torhivlia pry vstupi do SOT*. [T.Stukach. Agrarian Protectionism and Free Trade Upon Accession to the WTO. *AIC Economics*, 2005, No.3, p. 146].

¹¹ *Deiaki aspekty do vymoh GATT/COT shchodo liberalizatsii i proteksionizmu u sferi zovnishnoi torhivli silskohospodarskoiu produktsieiu*. [L.Bilozir. Some Aspects of the GATT/WTO Requirements to Liberalization and Protectionism in Foreign Trade of Agricultural Products. *AIC Economics*, 2005, No.8, p. 146].

system of support and regulation in the Ukrainian agricultural sector. To this end, measures should be what is permitted by the WTO («green box» measures – government support that does not distort competition, does not support the prices of producers and is not banned, namely: research, information and counseling services; facilitation of sale of agricultural products, control over the safety of products, veterinary and phytosanitary measures; improvement of infrastructure, etc.; and the «blue box» and «yellow box» of restricted measures – subsidies for livestock and crop farming products, compensation for damages, price support, benefits, etc.). Analysis of the scope and structure of government measures supporting Ukraine's agricultural sector shows that their conformity with the WTO requirements are incomplete and should be much more completely adapted to international standards¹².

Let us try to evaluate the true, objective advantages and problems of Ukraine's accession to the WTO and EU through the eyes of agrarians and farmers. The first objective problem for rural Ukraine is the low competitiveness of products and services compared with European countries. The competitiveness of commodities in the EU is supported through the following mechanisms: technical standards, sanitary and phytosanitary rules, as well as financial support of the agricultural sector out of the budgets of the EU and individual countries. Rapid access to the domestic market might cause an influx of European products into Ukraine. This might cause a deeper crisis in the agricultural sector and the bankruptcy of national agricultural enterprises.

One serious problem is the uneven distribution of benefits between countries and regions. The more economically developed countries enjoy the greatest competitive advantages in the removal of trade barriers in world trade. Although equal rights for each participant are formally declared,

¹² *Pidvyshchennia konkurentospromozhnosti vyrobnytstva silskohospodarskoi produktsii*. [O.Kondratiuk. Raising the Competitiveness of the Output of Agricultural Products. *AIC Economics*, 2005, No.10, p. 109].

transnational companies and enterprises have a much greater potential and possibility to influence the market. Moreover, the financial conditions are different for the new EU member countries. The agriculture sector is most vulnerable in those countries that did not overcome the crises and depression of the agricultural products sectors.

Another no less important problem discussed by Ukrainian agricultural commodity producers is the sale of land to foreigners. Indeed, under the Rome Agreement, any investor from another country of the European community is entitled to buy land in the country that is attractive to his business. Thus far a ban on the sale of land is in effect in Ukraine to prevent the large-scale purchase of land at absurdly low prices. Ukrainian agrarians and politicians are also worried about other problems related to accession to the WTO and EU. Let us analyze these problems against the experiences of countries that became new EU members.

The Integration Experience of New EU Members

As Ukraine's geographically closest country, it is worthwhile studying Poland's experience. Moreover, as the eastern neighbor of Poland, Ukraine is potentially an exceptional partner country for economic cooperation. Transboundary cooperation, as one of the transition forms of Ukraine's integration into the EU, is gaining key importance. Poland recently joined the EU, but changes in its economy and agricultural sector have made it possible to judge already its former and current status and predict what Ukraine's cooperation with the EU could be like.

Before Poland's accession to the EU, its agriculture was dominated by cereals that accounted for 77 % of all agricultural output and were planted on an area of 8.2 million hectares, livestock amounted to 5.5 million heads, and 18.9

million pigs¹³. Agricultural production lacked investment, while its profitability and earning power were lower than other sectors of the economy. The financial status of the majority of enterprises was unattractive for investment and stable development. Compared with their Polish counterparts, the EU agricultural producers received substantial financial support within the framework of a single EU agricultural policy.

Therefore, the prospects for EU enlargement raised serious fears among producers and processors of agricultural products. A lot of questions begged to be answered: what would be the economic terms? which production sectors will operate at a profit and which ones at a loss? how will production costs change? and will profitability go up or down? Skeptics warned that Poland would become a EU donor, prices would grow sharply, and Polish farming would be destroyed by the inflow of inexpensive products from the West. Even the advocates of EU accession believed that the first steps would be difficult.

Upon Poland's accession to the EU, Polish agriculture received from the EU budget about €7.2 billion in 2004–2006. This amount was more than twice the budgetary appropriations for agriculture in 2002. In 2004 Poland's GDP was US \$224.3 billion, i.e. US \$6,000 per capita. To compare, in Ukraine these indicators are US \$68.3 billion and US \$1,439¹⁴ respectively. The average monthly wage in Poland to date is US \$679 and pensions US \$310¹⁵.

Poland managed to receive funds for market intervention and development of agricultural export products. For the first time in ten years the country became a powerful exporter of food products

¹³ *Ekonomicheskiye posledstviya trgovli selkhozovarami v Polshe posle yee vstuplenia v ES.* [K.Vengliazhi, M.Bereza. Economic Consequences of Trade in Agricultural Products in Poland after its Accession to the EU. *AIC Economics*, 2005, No.2, pp. 126—132].

¹⁴ *Ukraina u tsyfrakh. 2004 rik.* [Ukraine in Figures. 2004. State Statistics Committee of Ukraine. Edited by O. Osaulenko. Kyiv, Konsultant Publishers, 2005, p. 260].

¹⁵ *Ya b v ahrarii pishov ... aby zhyv u Polshchi.* [I'd Become an Agrarian ... if I Lived in Poland. *Proposal* magazine, No.7, pp. 40—42].

to the EU countries and the surplus of trade in these products amounted to €500 million. Polish exporters were granted access to the most distant EU countries such as Portugal, Cyprus and Ireland with the abolishment of customs and other barriers that restricted such access to EU markets. EU membership also opened eastern markets to Polish products. Such progress was achieved owing to charges on exports and equal terms of competition with exporters from other EU countries.

Agrarians became the main recipients of EU assistance: in 2004 they received €445 million. In all, Polish farmers are to receive from the EU budget €9 billion by the end of 2006 through the mediation of the Agency for Reconstruction and Modernization of Agriculture. This promoted the income growth of large farms by 75 % and the rest by one third.

Also, Poland has a program for the development of rural regions to support farms in unfavorable regions. Government charges for such farms compensate for the prime cost of the agricultural products they put out. Such a mechanism has to prevent the outflow of labor and the regions' loss of agricultural specialization.

Poland managed to receive exemptions for the transition period to adapt its dairy farms, dairy plants and meat-processing enterprises to EU standards. Limits on dairy products were introduced to keep this sector going in the immediate future; financial bonuses were also established for the livestock sector. Limits on the production of sugar were set to meet the requirements of the domestic market and to keep exports within fixed bounds.

These are just some of the forms of assistance Poland received after its accession to the EU. But there are many others related, first of all, to the general direction of development of the country's agriculture, such as technical and technological assistance to improve roads for agricultural vehicles, training agricultural producers, and developing advisory services.

The positive results are confirmed by the data of the Institute of Economic Development of the Main Trade

School. For instance, the «number of farm families apprehensively looking into the future» dropped from 19 % in July 2001 to 13 % in July 2004, while the number of «families looking with hope into the future» rose from 14 % to 21.5 %. The number of farms with growing income increased from 21 % to 32 %¹⁶.

Thus, the following conclusions can be made:

- By acceding to the EU Poland derived financial advantages. After passing on to Brussels almost €1.3 billion, Poland received more than €2.5 billion in assistance.

- The increase in the output of certain agricultural products, above all beef, pork and milk during the first few months of Poland's membership in the EU speaks of the competitiveness of Polish products with European standards and the consumers' trust in their quality. Although consumer prices for staples went up, given the increasing income of the population, this is not a serious problem.

- Abolition of the customs duty brought positive changes in agricultural exports, especially to the EU countries.

- Investments in processing enterprises achieved positive results as well and now Polish dairy plants and meat-processing enterprises conform to the sanitary standards of the EU.

As we see, Ukraine and Poland had a lot in common before the latter joined the EU: just like Poland, Ukraine is an agricultural country and a considerable part of its output is accounted for by cereals (27.7 %), potatoes and vegetables (23.4 %), livestock products (35.7 %), including milk (13.8 %), livestock and fowl (16.7 %)¹⁷. Now we can analyze and predict what advantages Ukraine can gain by acceding to the EU, and, first of all, understand what Ukraine itself must do to become attractive for EU membership.

¹⁶ *Ekonomicheskiye posledstviya trgovli selkhozovarami v Polshе posle yee vstuplenia v ES.* [K.Vengliazhi, M.Bereza. Economic Consequences of Trade in Agricultural Products in Poland after its Accession to the EU. *AIC Economics*, 2005, No.2, pp. 126—132].

¹⁷ *Ukraina u tsyfrakh. 2004 rik.* [Ukraine in Figures. 2004. State Statistics Committee of Ukraine. Edited by O. Osaulenko. Kyiv, Konsultant Publishers, 2005, p. 260].

Critical Aspects of Ukraine's Integration in the Agricultural Sector of Europe

The issue of low competitiveness should be addressed immediately by agricultural commodity producers and with the assistance of the government. Every farm and enterprise can confidently raise output by strictly adhering to technologies. The government needs to guarantee income to agricultural producers, facilitate the sale of their products, deal in advance with the problem of prices for fuel, increase funding for the introduction of the latest in technologies at enterprises, and keep up improving the infrastructure of the countryside. In other words, measures must be taken that are allowed by the WTO and EU. Of importance is the growing rate of the competitiveness of Estonian agricultural products. This country acceded to the WTO in 1999 and from the outset stood out from among the other transition countries for the openness of its domestic market and almost complete refusal to support its agricultural producers. Today Estonia has the highest potential for growth in competitiveness among transition countries. Ukraine's accession to the EU would be a significant incentive for effecting reform in agriculture and other sectors of the economy. Market competitiveness always promotes higher overall efficiency of the economy as well as the quality of goods and services. Moreover, European technical rules, norms and standards should be introduced to Ukrainian agricultural enterprises as an objective and necessary condition for Ukraine's accession to the EU.

Regarding the sale of land to foreigners, Ukraine could learn from the experience of the new EU member countries. For example, Hungary introduced a seven-year moratorium on the purchase of land by foreigners and will probably extend this by another three years, if within this time prices of land will be below those in other EU countries. If a foreigner resides in Hungary over three years and intends to engage in the output of agricultural products, he

can buy agricultural land¹⁸. Certainly, this will be important for Ukraine which has about 42 million hectares of agricultural land, including more than 33 million hectares of arable land. Article 295 of the Treaty of Rome stipulates the sovereign right of every country to dispose of its land for any purpose. But this right is only applicable to the old EU members, not the new ones. Therefore Ukraine, with the best and most attractive land in Europe, should make this Treaty of Rome article effective for its ends as well. Existing domestic monitoring of the sale of land should be in effect in Ukraine until the land is put into circulation as capital and gain a real price. To prevent speculations on the future, which might withdraw large areas of arable land from production, the new owner could be made to pay heavy fines if he withdraws land from production, or a progressive system of taxation for sale of land could be used.

Ukraine is entitled to rely on the financial backing from the EU budget to support agriculture, as well as on subsidies for regions with unfavorable conditions of farming to prevent the outflow of labor from these regions, and subsidies for environmental protection to stabilize farming in the regions that are under protection or undergo degradation. Once these problems are positively resolved, Ukraine will receive the same assistance as Poland and enjoy considerable advantages in the process: the current problem of the import of inexpensive meat, sugar and cereals from Poland will be dealt with by abolishing the price differential for similar products in neighboring countries; the domestic market will have more Ukrainian products and, possibly, there will be an increase in the export of products which today Ukraine is compelled to import.

The next advantage from EU accession will be the abolishment of customs duty and quotas that obstruct agricultural exports and imports. In today's trade

¹⁸ *Problemy vstupu Ukrainy do Yevropeiskoho Soiuzu*. [V.Vlasov, R.Sabluk. Issues of Ukraine's Accession to the European Union. *AIC Economics*, 2005, No.2, pp. 132—137].

between the EU and Ukraine, quotas for imports to EU countries have been imposed on practically all Ukrainian products of vegetable origin, while the import of meat, dairy and other food products is obstructed by certification barriers of the EU countries. The abolition of customs duty and quotas will open Ukraine's domestic market for foreign products, at the same time making it easier for Ukrainian products to reach foreign countries and thereby boost exports. Even now the export potential of Ukraine's agricultural products is rather high and it can (and must) be higher. The agricultural sector has large opportunities for the export of milk and dairy products, meat and products thereof, and sunflower seeds¹⁹. Ukrainian cereals, sugar, Crimean wines and other products are now well known abroad and have a high export potential.

Yet another interesting element was the work that the EU launched in 1992 to set up a system to register and protect the names of regional and traditional producers. This EU system guarantees consumers high quality and compliance with centuries-old recipes with which these products are manufactured²⁰. With its diversity of national foods in different regions Ukraine simply must launch the registration of national products to promote them on the EU markets and raise their demand.

Accession to the EU will be an important factor in attracting foreign direct investment in Ukraine's agriculture. In early 2005 investment from EU countries accounted for 61.2 % of all investment²¹. The investment climate could be improved by

¹⁹ *Komertsyyni vidnosyny Ukrainy: orhanizatsia zovnishnoi torhivli*. [M.Zhuk. Ukraine's Commercial Relations: Organization of Foreign Trade. Textbook. Chernivtsi, Ruta Publishers, 2004, p. 233].

²⁰ *Rozvytok intehratsiynoi stratehii Ukrainy*. [S.Rybank. The Development of Ukraine's Integration Strategy. *Ukraine's Finance*. 2004, No. 4, pp. 30—33].

²¹ *Ukraina u tsyfrakh. 2004 rik*. [Ukraine in Figures. 2004. State Statistics Committee of Ukraine. Edited by O. Osaulenko. Kyiv, Konsultant Publishers, 2005, p. 260].

Presidential Decree *On the Strategy of Ukraine's Economic and Social Development «Along the Way to European Integration» for 2004-2015*. Kyiv, April 28, 2004, No.493/2004.

introducing stable, transparent and predictable rules brought on by Ukraine's membership of the WTO.

Ukraine could obtain a lot of advantages by acceding to the EU. This is also true by introducing the experience of economic management from other EU countries, the use of selection material in crop and livestock farming to raise yields and productivity, and access to the latest technologies to promote higher competitiveness of national products. A no less important advantage is opening the borders and attracting tourists (to develop Ukraine's cultural heritage and «eco-tourism» that will certainly improve the socioeconomic situation of the Ukrainian countryside).

There are many advantages to Ukraine's accession to the EU and merit the reform of agriculture, the establishment of a corresponding market infrastructure, the modification of national legislation to comply with the rules and requirements of the EU to veterinary medicine, zootechnology, the manufacture and quality of food products, and harmonization of quality norms with European standards.

It is common knowledge that the EU began lending assistance (to Poland, for example) to support the adaptation of agriculture to the changing external economic conditions in 1991. Thus, similar programs should be launched in Ukraine immediately. For each candidate country the European Commission prepared in advance the «partnership for accession» document. Relying on this document, consultations were held with interested countries to identify definite goals and priorities in their accession preparations. Then the governments of respective countries designed national programs to prepare for integration and set the main objectives to harmonize the countries' legal frameworks with the EU requirements²², setting up an effective consulting and advisory system, gradually introducing a new system for identifying, registering and classifying

²² Presidential Decree *On the Strategy of Ukraine's Economic and Social Development «Along the Way to European Integration» for 2004-2015*. Kyiv, April 28, 2004, No.493/2004.

domestic animals (incidentally, already launched in Ukraine), preparing and adopting new rules of foreign trade, as well as designing and adopting a system of direct subsidies in crop farming and animal husbandry²³.

For Ukraine's agriculture industry to be integrated into the EU the government will have to reconcile a broad spectrum of issues and carry on a lot of explanatory work with the EU member countries regarding the specifics of Ukraine's agriculture to harmonize its areas of production with the requirements of the EU agricultural market while minimizing the losses to the AIC and Ukraine's population.

Advantages and Drawbacks for the AIC within the SES

The integration of Ukraine's economy should be oriented not only toward the West but also toward the East. It is not so much a question of the ambitions of individual politicians as an objective vision of Ukraine's economy as it is today. First of all it should be recalled that Ukraine's exports to Russian account for 18 % (2004) and to all the CIS countries for 26.2 % (2004) of total exports²⁴. Moreover, the CIS countries are the main consumers of Ukrainian agricultural products, i.e. a third of exports²⁵. Russia was and certainly must remain Ukraine's strategic economic partner. All these countries are united not only by a common past, but also by what they share in common today. Having irrecoverably lost a part of their economic

²³ *Problemy vstupu Ukrainy do Yevropeiskoho Soiuzu*. [V.Vlasov, R.Sabluk. Issues of Ukraine's Accession to the European Union. *AIC Economics*, 2005, No.2, pp. 132—137].

²⁴ *Ukraina u tsyfrakh. 2004 rik*. [Ukraine in Figures. 2004. State Statistics Committee of Ukraine. Edited by O.Osaulenko. Kyiv, Konsultant Publishers, 2005, p. 260].

²⁵ *Komertsiyini vidnosyny Ukrainy: orhanizatsia zovnishnoi torhivli*. [M.Zhuk. Ukraine's Commercial Relations: Organization of Foreign Trade. Textbook. Chernivtsi, Ruta Publishers, 2004, p. 233].

potential, the former Soviet republics failed to adapt to the requirements of the world market. Deteriorating production and declining standards of living accompanied their economic reform. In sum, theirs is the richest natural and economic potential, but it was not always used rationally, while integration as a method of joint economic management could not reverse the negative trends in the distorted renewal processes, or efficiently use material, technical, scientific, research and human resources for economic growth in individual countries and the CIS as a whole. From 1991 to 2003, GDP in the CIS countries went down 30 %, including agricultural output by 28 % and investment in basic capital by 65 %. Practically no single CIS country achieved the key economic parameters it boasted before reform. In consequence, their mining sectors are developing at a rapid pace, converting the CIS countries into a raw materials segment of the world market.

Along the way of individual economic management sub-regional political and economic groups appeared, engendered by multi-vector external strategies. One of them is SES – the Single Economic Space – that includes Russia, Belarus, Kazakhstan and Ukraine.

On February 23, 2003 the presidents of Ukraine, Russia, Belarus and Kazakhstan declared in Moscow their intention to set up the SES within the boundaries of these countries. This means that they agreed to pursue in the future a single foreign economic and migration policy and eventually delegate a part of their powers to a supranational body²⁶.

The establishment of the SES provides for a gradual process at different paces and at different levels to give other countries the opportunity to join this organization. The text of the Agreement stipulates the unification of the countries' customs territories, pursuance of a single foreign trade and financial-credit policy, tariff and non-tariff regulation, the establishment of a single customs tariff, unification of trade regimes relative to third countries, as well

²⁶ *Rozvytok intehrastynoi stratehii Ukrainy*. [S.Rybank. The Development of Ukraine's Integration Strategy. *Ukraine's Finance*. 2004, No.4, pp. 30—33].

as the abolition of customs declaration and customs control at the internal borders.

Ukraine's accession to the SES has to produce a positive effect on its economy through the continued liberalization of foreign trade. It also provides for the abolishment of customs tariffs on the import of energy sources by the member countries, which has to reduce energy prices for Ukraine. The integration into the SES has to positively increase the volumes of output of products, increase Ukrainian exports to the SES countries (primarily Russia), reduce costs for antidumping investigations, abolish quotas, and reduce tariff barriers for Ukrainian exports. Export-oriented enterprises stand the most to gain from such a union.

Apart from broadening markets for Ukrainian products, the most important economic factor for Ukraine, as mentioned earlier, is the reduction of energy prices. This will substantially reduce production costs and enable the redistribution of the cost structure toward increasing expenditures for wages and, accordingly, raise the population's incomes. Consequently, expenses for the purchase of goods and services will go up, thereby positively affecting the increase in domestic solvent demand. The increase in the population's income will mean more savings that will contribute to the development of the banking system.

The increase in the profits and enterprises and the redistribution of the cost structure have to result in a substantial growth of investment in the Ukrainian economy from domestic sources. Given Ukraine's currently high economic growth rate, accession to the SES would improve the investment climate and increase foreign investment in Ukraine primarily from Russian capital (in early 2005 investment of SES countries accounted for 6.2 %) ²⁷. Thus, the improvement in the foreign economic situation and higher domestic solvent demand, along with higher investment demand, would speed up Ukraine's economic growth.

²⁷ *Ukraina u tsyfrakh. 2004 rik.* [Ukraine in Figures. 2004. State Statistics Committee of Ukraine. Edited by O. Osaulenko. Kyiv, Konsultant Publishers, 2005, p. 260].

Some analysts believe that the implementation of these actions foresees exactly the establishment of a customs union and will make impossible the achievement of the Ukrainian president's strategic objectives of European integration, a customs union with the EU and accession to the WTO. But these objectives has a separate chapter spelling out the interaction of the SES with the WTO, which harmonizes the positions in the negotiations on accession to the WTO with the opportunity for integration at different levels and at different speeds. The member countries are entitled to independently choose the mechanisms for harmonizing their positions during such negotiations. If one of the member countries accedes to the WTO earlier than the others, it has to promote the accession of others as quickly as possible, without entitling it to dictate the demand to the others. Moreover, Ukraine has been assuring that all the agreements within the SES are and will be in accord with the rules of the WTO. Thus means that Ukraine may pursue an independent foreign policy. Also, world practice shows that a lot of countries, apart from being members of the EU and WTO, are also members of other economic groups. Within this context it seems to be very attractive for Ukraine to seek economic integration with those partners who currently have the opportunities and desire for such integration²⁸.

Since the first years after the demise of the Soviet Union, Ukraine was among the first USSR republics that wanted to overcome the obstacles in mutual trade between the former Soviet republics, when our enterprises came to a standstill after economic relations were ruined. The SES is influenced by the most economically developed CIS countries and its participants have substantial potential for economic interaction. Yet their socioeconomic development rates are different, Ukraine's being not the best. In 2003 Ukraine's per capita GDP was US \$1,036 (US \$1,439 in 2004), while Russia's was US

²⁸ *Rozvytok intehratsiynoi stratehii Ukrainy*. [S.Rybank. The Development of Ukraine's Integration Strategy. *Ukraine's Finance*. 2004, No. 4, pp. 30—33].

\$2,986 in 2003. Nominal wages in 2003 in Ukraine and Russia were US \$86.7 and US \$172.2, respectively²⁹.

Ukraine sees the SES as an instrument for achieving economic objectives and stimulating the continued development of the national economy. Within the SES it would primarily mean the establishment of a free trade zone without any restrictions and the removal of obstacles to Ukraine's products entering Russia, the enlargement of the opportunities to promote capital, services and labor. Ukraine has clearly defined its foreign policy priorities – integration into the European economic and political structures. Therefore, it does not intend going further than the free trade zone within the framework of the SES Agreement. Moreover, Ukraine is not yet prepared to accept the establishment of a supranational managerial body, because in the opinion of some politicians it might pose a threat to Ukraine's national sovereignty. But this is not to the liking of Belarus that insists on an equal pace of integration and joint resolution of arising problems.

The establishment of the SES foresees an evolutionary way of entering the world community and gradual admission of foreign capital and modern technologies into the domestic markets of the SES member countries. This increases the level of development of production forces, forms a progressive structure of the economy, and establishes the output of quality products. This is a reasonable position since Ukraine needs time to adapt to the standards of the EU countries. Why then should modern technologies, financial assistance and foreign investment be disregarded if there is a possibility to use them? Experts predict that in the next few years the CIS will not be in a position to ensure the output and sale of high-tech products outside its economic space. Therefore, the adaptation of production to the conditions of the world market and

²⁹ *Yedinoye ekonomicheskoye prostranstvo Belarusi, Rossii, Kazakhstana i Ukrainy: problemy i perspektivy*. [N.Shumsky. The Single Economic Space of Belarus, Russia, Kazakhstan and Ukraine: Problems and Prospects. *Issues of Economics*. 2005, No.8, pp. 114—123].

an increase in their competitiveness will be proceeding at a much too slow pace.

An undoubted advantage of the SES is the protection of its internal sugar market and support of national producers by banning the import of raw cane sugar into the SES territory. Ukraine's sugar production is in a horribly neglected state, and will import bans alone be of any help? Europe is preparing for sugar reform to substantially reduce output of the continent's sugar refineries. Large foreign companies are prepared already to commit sizable funds immediately to the modernization of Ukraine's enterprises. Analysts of the world market believe that if investment in Ukraine's sugar industry was to be launched now, in two-three years it could be revived to its potential at Soviet levels. Some four-five years later sugar output might reach approximately eight million tons. Thus, foreign capital is not so undesirable for Ukraine.

To conclude, we can say that the SES member countries are very important strategic partners for Ukraine. Export-import transactions with them hold a large share in Ukraine's foreign trade, and the establishment of a free trade zone will positively affect the agricultural sector. No less important are the cultural relations between our countries. A customs union would be also very useful for all the SES members. Therefore, the SES agreement should exist insofar as it does not violate the Constitution and laws of Ukraine as well as international treaties.

Conclusion

In evaluating the advantages and drawbacks of each vector of Ukraine's international integration, we will try to summarize these data and conclude the direction that is most useful for Ukraine and from where will it acquire more preferences.

1. Increase in exports is to be expected from any orientation of integration of the Ukrainian economy. The SES countries import a large percentage of Ukraine's agricultural products, and there is no doubt

that sugar, meat, potatoes and dairy products are already in great demand in the CIS countries and have a strong export potential (at least at 1990s levels). But it should be remembered that Ukraine's western neighbors are Poland, the Baltic countries, Slovenia and Hungary that belong to the largest and most solvent market of the world. Incidentally, 36 % of Ukrainian exports are sold to this market today. Integration into the EU opens new markets in the most distant countries of Europe.

2.Reduction (abolishment) of customs duty and quotas has both positive and negative implications. Exporters stand to gain from the reduction, but there is an opportunity to supply to the Ukrainian market products of low quality and at prices below similar Ukrainian products. If the SES countries, within their economic zone, have the opportunity to limit undesirable imports from other countries, once Ukraine accedes to the WTO or the EU, it will have to protect its interests on foreign markets. But on the other hand the EU and other countries have a stringent trade regime as regards customs duties that are more than three times higher than those on the internal European market. The SES countries are losing approximately US\$2-3 billion annually from the discrimination of trade and economic relations with third countries. Therefore, if the competitiveness of Ukrainian products goes up, Ukraine will acquire more preferences than from integrating into the EU.

3.Both the accession to the EU and mutual relations with the SES require the introduction of technical and veterinary norms and standards. In this manner the states control access of products to the national markets. These norms and standards are necessitated by the objective desire to protect human health, the fauna and flora, and promote environmental safety as ever more new products appear on the market and their consumption might have negative consequences. The SES countries strive to adapt their national legislation to the requirements of the WTO. Therefore, Ukraine should also do this as quickly as possible for its safety

and to protect against the «blackmail» of other countries.

4. The competitiveness of Ukrainian products – either on the Russian or Belarussian markets – is sufficiently high. But when offered on the European markets, the products are less competitive (especially if they originate from private farms). When looking into the future and given government support and the desire of agricultural producers themselves, accession to the EU will provide greater potential for growth in competitiveness, because higher requirements oblige much higher quality. Thus this integration is a mighty incentive for reforming the agricultural sector of the economy.

5. In early 2005 Ukraine had US\$8,853.9 million in investment, of which investment from the SES countries accounted for 6.2 % and from the European countries 61.2 %. Therefore it is quite simple to predict which of the integration processes will bring more investment into Ukraine. What should also be remembered are the EU support programs for agriculture. Incidentally, some of them are already applied to Ukraine's agriculture. One of them – the Improvement of the System of Logistics and Marketing for Small and Medium-Sized Enterprises in Agriculture Project – was launched to raise the income of private farms as well as small and medium-sized enterprises and improve the social and economic welfare of the rural population.

Thus, we can conclude that the course of European integration should be continued on condition of keeping national economic interests in mind. The government's policy should immediately take into account the economic interests of the AIC enterprises. The top-priority objectives should be the development of the rural infrastructure, higher competitiveness of products, a satisfactory solution to the land issue, the development of consulting and advisory services in agriculture, i.e. the policy of protecting the domestic market should be based on compliance with the strategic course of stage-by-stage liberalization of foreign economic relations exactly in areas where competitive advantages appear.

But regardless of Ukraine's proclaimed course of integration into the EU, it is important to develop trade and promote products on the markets of Russia, Belarus, Kazakhstan and other CIS countries. In the medium-term these countries are among the first consumers of Ukraine's agricultural products.

Neither should Ukraine delay improving its legal framework in accordance with EU requirements, design sanitary and veterinary norms and standards, and make more stringent the control over the quality and safety of agricultural products, i.e. meet the Copenhagen criteria required for its economic development and accession to the EU.

By bolstering national production, at the same time complying with EU standards and pursuing a patriotic policy inside the country, Ukraine should not be worried what direction to choose, because the enlargement of sales of Ukrainian products in any direction will only promote the further development of the economy.

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