

ЗРОСТАННЯ ВПЛИВУ СХІДНОГО ПАРТНЕРСТВА НА ТРАНСФОРМАЦІЙНІ ПРОЦЕСИ В УКРАЇНІ

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Проаналізовано Україну як одного з ключових членів Східного партнерства. Зазначено, що Україні необхідно модернізувати економіку та зміцнити свої позиції як на ринку Східної Європи, так і в Європейському Союзі. Наголошено, що Україна повинна здійснити інституційні реформи та раціонально керувати коштами, що надані Європейським Союзом. Також наголошується, що Україні слід створити сприятливі умови для іноземних інвесторів, полегшити умови ведення бізнесу, сприяти захисту інтелектуальної власності. Для того, щоб успішно розвиватися, українська держава потребує послідовного вирішення багатьох внутрішніх проблем та може використовувати досвід інших Центральноєвропейських держав (зокрема, Польщі).

Ключові слова: *Європейський Союз, Східне партнерство, зона вільної торгівлі, реформи у сфері економіки, інституційні реформи.*

REINFORCING THE EASTERN PARTNERSHIP INFLUENCE ON THE TRANSFORMATION OF UKRAINE

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In the article, the authors analyze Ukraine in the context of the Eastern Partnership. It is pointed out that Ukraine needs to modernize the economy and strengthen its position both in the Eastern European market and in the European Union. The authors of the article emphasize that Ukraine should implement institutional reforms and rationally manage the funds raised from the European Union. It is also considered that in order to attract more investors Ukraine must also create good conditions for foreign investors to increase their (and thus the state's) income. Eastern partnership is a project focused on cooperation in different spheres, scientific, political, economic, cultural spheres being in the first place as well as energy security. The article has an important scientific meaning because Eastern partnership is being implemented right now and it has an impact on dynamic cooperation between Ukraine and the EU. The key point is that in the framework of this project the EU states share their experience and provide financial support for important programs and initiatives oriented on fulfillment of reforms in Ukraine.

The adoption of EU competition rules and regulation of intellectual property rights protection, facilitation of doing business in Ukraine, increasing of checkpoint number at the borders – all these questions are of high importance for the status quo and the future of Ukraine. That is why on its rapid and successful path to join the EU, Ukraine needs to overtake the experience of Central European countries (Poland first of all) and fight corruption and solve the problem with oligarch power.

Key words: *European Union, Eastern Partnership, free trade zone, economic reforms, institutional reforms.*

The introduction of EU norms and standards is not a guarantee of Ukraine's success in the sphere of free trade and the creation of an in-depth and comprehensive free trade zone with the EU. For this process to be effective, it is necessary to introduce legal regulations. This means that the Ukrainian authorities should create a number of legal regulations and facilitate the business. It is necessary to harmonize the laws in the areas covered by the provisions of the agreement as well as financial

support from the EU, which will at least partially cover the high costs of state modernization.

The essence of the deepened and comprehensive EU-Ukraine Free Trade Agreement is contained in the harmonization of legal regulations. It is estimated that by implementing its provisions Ukraine will adopt about 60 percent of the EU legal order. As a result, the state has a real chance to become a part of an area where common economic rules are applied. Their adaptation and effective

enforcement will reduce investment risk and attract foreign direct investment, which will influence the modernization of several sectors in the Ukrainian economy.

One of the major problems is the financial burden that Ukraine must incur by implementing the provisions of the Association Agreement. This is a short and medium term investment, while the return on investment is foreseen over the long term. In this situation it is necessary to use the obtained EU funds. For this process to be effective and to rationalize the resources to cover at least a part of the costs of modernization, the number of actions and the institutional capacity of the administration should be reduced.

The issues related to the Eastern Partnership, the development and protection of the competitiveness and economic cooperation of the beneficiary countries with the European Union have been examined by many Polish, Ukrainian and foreign researchers. Among the people involved in this subject are: P. Żurawski vel Gajewski, D. Milczarek, O. Barburska, R. Zięba, Zdanowicz M. D. Szeligowski, R. Sadowski, H. Perepelytsia, O. Chumachenko, S. Hutsal, N. Kopsei, K. Pomorska, O. Stegnyy, N. Shapovalova etc.

Ukrainian scholars stress that the obvious advantage of the Eastern Partnership the principles of differentiation and instrumentalization. The Eastern Partnership presents a set of specific instruments entailing no obligations of the EU about the Ukraine's future membership in it, but there is a instrumental tool by which we can open the channels of European Union for the realization of the integration projects in Ukraine. Polish and European scholars emphasize on the lack of effectiveness of the project and focus on researches in the sphere of its transformation as the reformation process is too slow and not very visible.

The main aim of the article is to explain the process of harmonization of technical standards and regulations in the commercial sector. It is important to analyze the mechanism of Ukraine's co-financing in the economic sphere in the context of economic development and improvement of the economic situation by external structures and draw attention to the problems of Ukraine related to the development of economic cooperation, the failure of the administration and the need to modernize it. Also the article aims to show that Eastern partnership is an important instrument of Ukraine for deepening political cooperation with the European Union and that this project needs to take into account national interests of Ukraine and focus on the spheres which are of mutual interest both of the EU and Ukraine. Common problems of Ukraine, Moldova, Georgia and their challenges in the framework of the Eastern partnership lack for more adaptive policy and cooperation model from the EU.

The implementation of the EU standards and technical requirements is not enough for Ukraine to take full advantage of the opportunities offered by the creation of an in-depth and comprehensive free trade zone with the European Union. The Ukrainian government should create transparent and stable legal regulations and facilitate business operations. Hence, both the approximation of the law in the areas covered by the agreement and the financial support from the EU will be necessary, which will at least partially cover the high costs of state modernization

One of the assumptions of the association agreement between the European Union and Ukraine is the creation of the so-called Deepened and Comprehensive Free Trade Area (DCFTA). It assumes the liberalization of trade between the two parties, as well as the harmonization of technical standards and regulations in the commercial sector. The provisions for the creation of the DCFTA were signed in June 2014, and since January 2016 are applied until the entry into force of the Association Agreement [Szeligowski 2016a].

The essence of the deepened and comprehensive EU-Ukraine Free Trade Agreement is contained again in the harmonization of legal regulations. It is estimated that by implementing its provisions Ukraine will adopt about 60 percent of the EU legal order. As a result, the state has a chance to become a part of an area where common economic rules apply. Their adaptation and effective enforcement will reduce investment risk and attract foreign direct investment, which in turn will allow the modernization of individual sectors of the Ukrainian economy. The DCFTA effects will be visible especially in the financial, telecommunications and postal and courier sectors. Harmonization of legal regulations will integrate these areas with the EU services market. In addition, thanks to its geopolitical location, Ukraine will become an attractive location for producers of goods destined for the internal market. This attracts not only European investors; a good example is that in April 2016, the Japanese company Fujikura opened its factory in the Lviv region. Further investments are planned by representatives of the German automotive industry – Leoni and Kromberg & Schubert. In the next few years only these companies will invest in Ukraine several dozen millions, creating over 15 thousands of new jobs.

In the longer term, the implementation of DCFTA will bring benefits for the exporters from the EU and Ukraine. Under the terms of the agreement, the total value of collected duties will be reduced by 98.1 % and 99.1 % by Ukraine. The number of non-tariff barriers to trade will also decrease [Szeligowski 2016b].

Ukraine should also adopt a number of EU standards and technical requirements. This is a

prerequisite for access to the EU market. These standards are recognized, among others by the United States, Canada, Japan and South Korea. Their implementation will further facilitate Ukrainian exporters get access to some non-European markets. Making full use of the potential resulting from the creation of a free trade zone with the EU will depend on creating a stable, transparent and effective business environment in Ukraine. The priority should be aligning Ukrainian legislation to EU law in areas covered by the Association Agreement. Although the agreement has not yet entered into force, Ukraine should be interested to begin harmonizing as soon as possible. Due to the low institutional capacity of the Ukrainian administration, this process should be gradual and cover no more than one area simultaneously. Completing the harmonization in one area should open the way for further adjustment.

Particularly important will be the adoption of EU competition rules and the protection of intellectual property rights and customs regulations. The implementation of competition rules will eventually eliminate the process by which state-owned enterprises acquire significant subsidies from the state budget, which are sources of income for the oligarchs. The amount of money saved in this way could be used to support companies in adapting to EU standards and technical standards. In turn, the adoption of intellectual property protection rules will allow the innovation development and the transfer of new technologies that underpin economic modernization. Effective protection of intellectual property rights is particularly important for the rapidly growing Ukrainian IT sector, which already produces 3 percent of national GDP. Positive effects will also be achieved by simplifying administrative procedures as a result of the harmonization of customs regulations. Existing solutions significantly reduce exports, according to World Bank estimates, filling the necessary documents for the export of goods to third markets in Ukraine is twenty times more than in the most developed OECD countries.

It will also be necessary to facilitate the conduct of business activities, in particular to reduce the costs of obtaining permits for the construction and connection of electricity, as well as to reduce the time needed. The change also requires a tax-impaired business. Ukraine should first of all liquidate the tax police, which has so far often been the purpose of enforcing bribes. The role of a wider reform of the judiciary should also be to streamline the work of economic courts. Currently, Ukraine is only on 83th place in the Doing Business ranking [“Ease of Doing business in Ukraine. World Bank Group”, n. d.].

In the longer term, the number of checkpoints at the EU border will also increase. This will reduce the

waiting time for crossing the border and thus reduce export costs. Ukraine borders Poland, Slovakia, Hungary and Romania on the section of 1390 km, where there are just over 20 road border crossings. In comparison, in Poland, only 467 kilometers of German border had 30 points before accessing the Schengen area.

Unfortunately, the implementation of the association agreement means that Ukraine needs to incur high financial costs, mainly in the short and medium term, while profits are expected to be high in the long run. It will therefore be necessary to make appropriate use of the available resources already earmarked by the EU to cover at least part of the cost of state modernization. In order to avoid excessive dispersion, the number of activities and the institutional capacity of the administration should be reduced.

Firstly, technical and legal assistance programs, as well as cooperation between public institutions from Ukraine and EU countries, will facilitate the adjustment of Ukrainian national law to EU law. Therefore, Ukraine should use the experience of Central European countries, Poland first of all, which has undergone a similar process of legal harmonization before entering the EU. Secondly, long-term support programs for the private sector, especially small and medium-sized enterprises, will facilitate adaptation to EU standards and technical standards. Thirdly, infrastructure projects, including the development of transport infrastructure and the preparation of investment sites, will enable the utilization of the potential resulting from the geographical location of Ukraine.

The most important creditor of Ukraine is the International Monetary Fund. Only in April 2014 Ukraine received a two-year loan of \$ 17.1 billion. Its total needs were estimated at \$ 27 billion. In March 2015, due to the deterioration in Ukraine’s economic situation and due to Russian aggression, the IMF agreed to replace its old four-year loan with a value of \$ 17.5 billion. It was a part of the IMF’s reform agenda for 2015-2018, worth \$ 40 billion [Sadowski 2016].

Appropriate financial resources can also be obtained from the European Investment Bank, the initial allocation for the years 2017–2020 is approximately \$ 3 billion, and under the European Neighborhood Instrument – 2016–2020 Ukraine can receive 170–180 million euro per year in the form of grants. At the disposal of the Ukrainian government is also a loan of 100 million euro, granted by the Government of the Republic of Poland. It can be used for expanding and modernization of border infrastructure [“Polsko-białorusko-ukraińska współpraca ponad granicami – transgraniczna rozgrzewka”, n. d.].

Now Ukraine is facing the challenge of continuing the macroeconomic stabilization of the state.

Implementation of agreements with the IMF and the launching of further tranches of financial assistance are in priority now. Support for international donors is still necessary to enter the path of economic growth. But the reform progress is beginning to interfere with the interests of the oligarchs, and their resistance will hinder the process. This conflict of interest may prevent Ukraine from accessing financial markets and significantly complicate servicing foreign debt.

The Ukrainian government has pledged to carry out structural reforms, including improving the investment climate by deregulating and simplifying the tax system, restructuring and privatization of state-owned enterprises, and go on fighting against corruption. However, the reform plan was delayed. As a result, the Fund slowed down further tranches. In the years 2014–2015 Ukraine received only about 11.4 billion dollars (2/3 of the planned amount).

Delays in the implementation of reforms affect the pace of economic growth. The entry of Ukraine into this path depends primarily on the resumption of cooperation with international creditors and additional financial resources which would enable a significant increase in the level of foreign exchange reserves and thus a partial liberalization of capital controls and foreign exchange transactions. This could give impetus to faster economic development.

Economic reforms, however, meet opposition from the oligarchs, because they violate their interests. Therefore, they try to slow down or stop this process by means of political instruments and corruption in the Verkhovna Rada. The main aim is to convince the public that the costs involved in adopting EU standards and standards, and thus modernization of the state, makes no sense. The lack of transparent legal regulations and institutions, including effective judicial system and the fight against corruption, provides the oligarchs with protection from outside competition, for example by foreign investors.

The oligarchs' business activity can be hit primarily by transparent privatization. At present, they control most state-owned enterprises, thus obtaining subsidies from the state budget. The threat to oligarchic interests is also a restrictive economic policy implemented by the Ukrainian government, limiting access to cheap loans and public procurement. This allows the oligarchs to raise additional funds from the state budget. The appointment of a new government in Ukraine will probably not lead to a quick return to the path of political and economic reform. Partial macroeconomic stabilization reduces the determination to change and also willingness to cooperate with the IMF.

Policies are demanding decisive action and concrete solutions: tax cuts, peace treaties and trade agreements. Unfortunately, neither world nor diplomacy

is working. Only the populists are implementing programs that have effects here and now. Visionaries usually rule briefly, they are perceived as chaotic, but their ideas are realized by successive generations.

But it is important to admit that even in those strict and hard realities in Ukraine, Eastern Partnership is still working. We can see many visible results which resist all the troubles in legal order, adaptation and harmonization processes according to EU standards, business facilitation and the problems of corruption and oligarchs. We believe that only step-by-step hard work oriented on transformation of Ukraine will bring good results, and the Eastern Partnership is one of the ways to make this process more effective.

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