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BENEFITS AND RISKS OF UKRAINE'S ACCESSION INTO THE EUROPEAN UNION: MACROECONOMIC ASPECTS

Introduction. Since Ukraine's independence the question of the country's accession to the EU has become a burning issue and won its supporters and opponents. Most political parties of Ukraine have made this issue the subject of political speculations to win the votes. The EU officials also hold controversial opinions on the issue and many are reluctant to see Ukraine among the EU members.

Whatever the opinions of the Ukrainian society about the accession to the EU are, Ukraine's aspirations were legally declared on July 1, 2010 in the Law of Ukraine "On the Basis of the Domestic and Foreign Policy of Ukraine". Article 11 says that this country aims at acquiring a full membership in the EU. While Ukraine spoke about obtaining the EU membership, the latter most of the time tried to avoid this possibility [1]. Let us see what attracts Ukraine to the EU.

In the experts' opinion, the most attractive benefits for Ukraine are:

- People, goods, services and capital can freely move across borders within European Union.
- An Internal market creates pressures of competition which stimulates innovation.
- Membership in the EU allows make cross-border mergers and acquisitions possible to improve the business.

Being aware of these and other benefits, we applied macroeconomic analysis to trace how these benefits are experienced in chosen the EU Member States. Poland, Bulgaria, Romania, Latvia and Estonia were chosen for comparison because of their close geographical location and their common socialist past. The choice of indicators for the data analysis was determined by the approaches applied by the European Commission in its Annual Reports.

Data Analysis

Basing on data collected from the European Commission and EBRD databases and using comparative and dynamic data analysis we tried to describe the economic situation in the European Union Member States and Ukraine in the period of 2000 – 2009 by means of macroeconomic indicators aloof political speculations [2].

For the data analysis, it was chosen five macroeconomics indicators:

- Gross domestic product per capita
- External debt per capita
- Foreign direct investment per capita

- Unemployment rate
- Trade / GDP

The choice is due to fact that these indicators clearly characterize economic benefits and risks of European Union membership. In this article it is represented indicators which reflect changes in economy of chosen countries-members.

Data analysis is started from description of Growth Rates of Gross Domestic product which shows living standards in The European Union countries-members.

Table 1 demonstrates Growth Rates of GDP per capita. As we see in the table, which represents only selected figures from the whole table of this indicator, Latvia achieved the maximum 1.5 growth rate for the period of 2001 – 2009. It gives grounds to infer that consumption and production volumes increased due to more competitive market opportunities created by Latvia's accession to the EU. In 2009, after the crisis of 2008, Latvia and other Member States lost 0.3 – 0.4 points, while Ukraine lost 0.7. This may serve as evidence that Latvia and other Member States proved to be more resistant to the crisis negative impact than Ukraine.

One of the reasons of such resistance to the unstable economic situation is Single Market of the European Union. The beneficial of single market was estimated on the first steps of its developing. The main problems, which were eliminated immediately, were goods delays on the frontiers because of checks, products conformity to different law in each Member State, non-competitiveness of services such as transport, telecommunications, banking and broadcasting, restrictions on residence and risk losing social security rights in another Member State for citizens, which were not employed [3].

Among different factors, which make influence on GDP growth, there is the factor of labor input growth, which is about a half of labor market component, where declining in the unemployment allows make value contribution in it [4].

Fig. 1 describes the situation with unemployment rates. This graph shows that after accession all the new European Union Member States witnessed the overall improvement of unemployment rates than before. For example, Poland in 2000 had 16.1 percent unemployment rate, at the moment of accession the rate rose up to

Growth Rates of Gross Domestic Product per capita for 6 counties

Country	2001	2007	2008	2009
Latvia	1.1	1.5	1.2	0.8
Ukraine	1.2	1.3	1.3	0.6

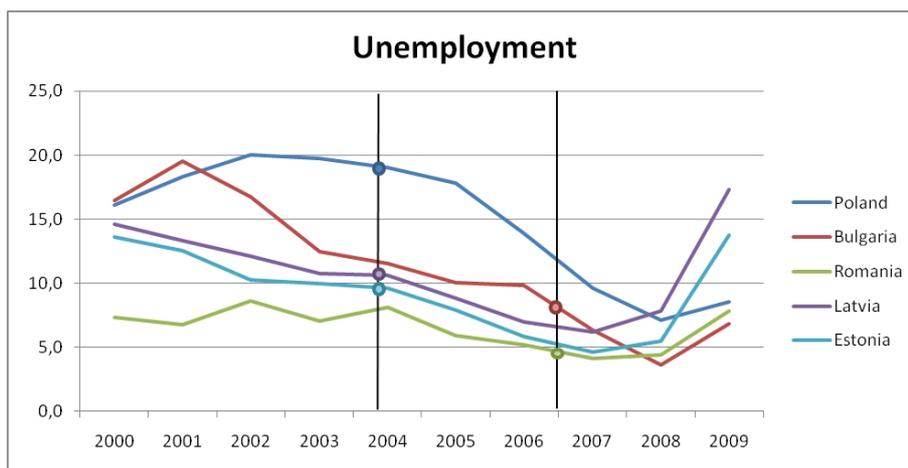


Fig. 1. Unemployment rates for 5 EU counties, %

19.0%, but in 2008 it declined to 7.1%. The same trend can be observed in Bulgaria, where the rate dropped from 16.4% in 2000, through 6.3% in the moment of accession to 3.6% in 2008.

Besides a number of other factors, such as demographic factors, the minimum wage, the differences in growth rates across sectors, unemployment insurance, influence of trade unions, the level of taxes, influencing the employment rate, the newly accessed EU countries obviously benefited from the free movement of labor, allowed by the single market.

The Single Market also has positive influence on the trade and foreign direct investment inflow. Due to non-barriers trade, trade volumes among Member States have increased significantly. The single market is more attractive for foreign investment flows and has not complete, but strong influence on the financial services sector.

After the European economy changes, there was rising number of mergers and acquisitions led to increase in competition on national markets, which caused greater convergence of prices for goods and services [3].

Fig. 2 demonstrates the growth of FDI per capita in all Member States after accession. The most representative figures are in Bulgaria, where FDI in 2000 accounted for 122.5 US dollars, but in 2007, the year of accession, it showed 10 time increase (\$1697.8), and in

Estonia, where in 2000 FDI comprised 235.9 US dollars per capita, in the moment of accession in 2004 it reached 516.5, but next year FDI rocketed to 1673.5. Romania also followed the same trend: in 2000 its FDI was as low as 52.0 US dollars per capita, while after accession in 2008 the figures went up to 435.8.

These impressive figures illustrate profound restructuring of the European economy that was characterized by an explosion in the number of cross-border mergers and acquisitions which promoted an important part of foreign direct investment flows and which themselves multiplied as the Single Market was implemented. It is also observed benefits such as boost of large firms' activity volume without geographical changes in distribution of this activity, intensification of competition has reduced the increase in firms' profit margins in the sectors where there were important trade barriers and convergence of prices across Member States for various goods and services due to opening-up of markets .

Such situation in the Single Market area gives opportunities for developing of financial services sector and for creation favorable conditions for leading business. In comparing with absence of the Single Market, it is observe reducing inflation rate, higher employment level, positive impact on convergence, boosting of investments, increasing incomes. To

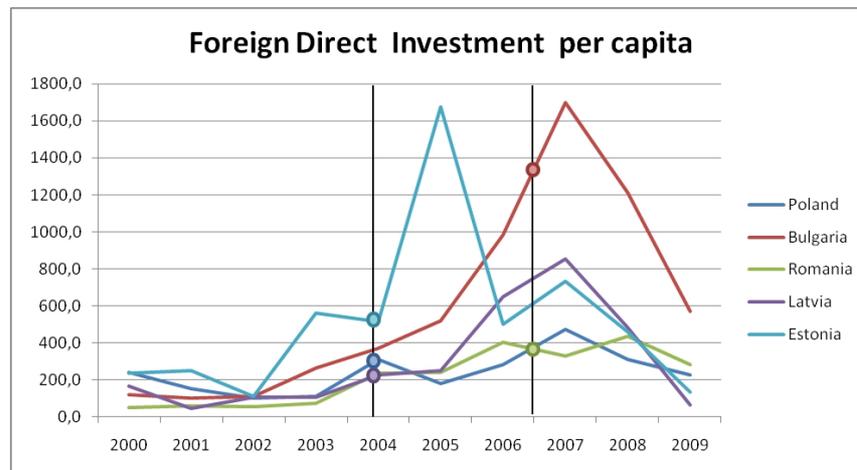


Fig. 2. Foreign Direct Investment per capita for 5 EU counties, US dollars

Table 2

Dynamic of the main economic indicators in Ukraine

Year	2001	2007	2008	2009
Growth Rates of GDP per capita	1.2	1.3	1.3	0.6
Unemployment (end-year, in per cent of labor force)	10.9	6.4	6.4	8.1
Foreign direct investment per capita (in US dollars)	15.94	199.87	216	99.68

conclude, undoubtedly, the macroeconomic impact of the Single Market is positive [5].

Below it is represented the macroeconomic indicators in Ukraine for the same period of time.

This table proves that economic situation in the country had a tendency to improvement in the pre-crisis years. While Growth Rates of GDP per capita showed slow improvement, the Unemployment rate declined from 10.9 to 6.4. The most impressive figures are FDI per capita, which rose from 15.94 to 216. Although in the days of crisis the indicators obviously worsened, the current sporadic figures of 2012 let us make optimistic prognosis for further improvement.

At the same time we must admit that there would be risks for Ukraine after accession to the EU. These risks comprise:

- Economic country modernization to accession might be more expensive than it expects.

- After accession, Ukraine's economic sectors might adopt to the laws and rules of European Union, which can negatively reflected on the economy situation.

- The strong competition might displace Ukraine's products from the European market.

Obviously, the main goal for Ukraine, in the process of development relationships with the EU, is meeting its criteria for improving economic situation. This fact is documented European Commission Strategy Recommendation where it is emphasized on the reform process through the relevance to the EU standards [6].

For example, in Romania, after the its accession into the EU, there was mass closure of mills and bakeries, because in the opinion of the National Sanitary Veterinary and Food Safety Authority more than 1000 bakeries were not relevant to the standards of hygiene and alimentary security established by the European Commission.

Subsequently, this situation initiated the development black market of the bread, which caused by tax evasion [7].

Of course, existence of these and other possible risks may cloud the country's smooth accession to the EU. However, the benefits appear to give more opportunities for Ukraine as a future member of the union.

On the other hand, in the opinion of the Ukrainian specialists the European direction is beneficial for Ukraine. Ivan Kuras, which is Academician of NAS of Ukraine, says that preparing to Ukraine's integration into the European Union is chance to improve investment climate, quality of products and economy of country. Volodymyr Pyekhota, which is MP, head of 'European Choice' faction, considers that 'Ukraine's European choice' allows to build democratic and civil society due to intensive development of market economy and increase of living standards [8].

So, the data analysis shows that the European Union Member States such as Poland, Bulgaria, Romania, Latvia and Estonia apparently improved their macroeconomic indicators after accession. Taking these countries as an analogy it is possible to expect that the very aspiration of Ukraine to join the EU may have positive effect for the domestic economy.

Conclusion. Thus, relationships between Ukraine and the EU have continued since 1994 when the Partnership and Cooperation Agreement (PCA) was signed. Since that time Ukraine has headed to the European membership and its intentions are strong and proved by numerous negotiations such as Visa liberalization dialogue, Negotiations of an Association Agreement(signed on 30 March 2012), negotiations on a deep and comprehensive free trade agreement(signed 19 July 2012). But all documents signed demand the market economy, sustainable development and good governance. The European Union announced that it recognized Ukraine as a market economy on 1 December 2005. The process of pursuing the European Union membership and meeting the accession criteria is beneficial for Ukraine because these criteria spur motivation to modernize the country and improve economic situation. Taking in consideration benefits and risks, it is possible to conclude that Ukraine's accession into the European Union is more beneficial than risky.

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Олейніков О. А., Кефер А. С. Вигоди та ризики вступу України до Європейського союзу: макроекономічний аспект

В статті було розглянуто вигоди та ризики вступу України до Європейського союзу на прикладі країн, які є подібними за економічним розвитком. Виявлено вигоди та ризики для України після вступу до Європейського союзу та проаналізовано подальші перспективи інтеграції до цього політичного та економічного об'єднання.

Ключові слова: Європейський Союз, аналіз даних, темпи зростання валового внутрішнього продукту на душу населення, безробіття, прямі іноземні інвестиції на душу населення, спільний ринок.

Олейников А. А., Кефер А. С. Выгоды и риски вступления Украины в Европейский Союз: макроекономические аспекты

В статье были рассмотрены выгоды и риски вступления в Европейский союз на примере стран, сходных по характеру экономического развития с нашим государством. Выявлены выгоды и риски, с которыми столкнется Украина после вступления в Европейский Союз, проанализированы дальнейшие перспективы интеграции с этим политическим и экономическим объединением.

Ключевые слова: Европейский Союз, анализ данных, валовой внутренний продукт, безработица, прямые иностранные инвестиции, единый рынок.

Oleynikov A. A., Kefer A. S. Benefits and Risks of Ukraine's Accession into the European Union: Macroeconomic Aspects

In the article it is discussed the benefits and risks of accession into the European Union on the example of countries that are similar in economic development. It was defined benefits and risks for Ukraine's accession into the European Union; prospects of further integration into this political and economic union.

Key words: European Union, data analysis, Gross Domestic Product, Unemployment rate, Foreign Direct Investment, Single Market.

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