

ICPS newsletter

Ukraine and the European Union Are Interested in Closer Partnership

*The European Union is moving East s toward Ukraine.
Klaus Fabjan, Ambassador of Austria in Ukraine.*

Ukraine and the European Union share common interests: to develop and further strengthen partnership relations. To deepen economic co-operation, jointly advance in the direction of helping Ukraine integrate into the European structures. These interests have a sound economic basis and are not purely political or ideological. The development of relations between Ukraine and the European Union depends on efforts and good will from both sides. This idea was the main theme at the discussion of the EU s Ukraine convergence strategy held at the International Centre for Policy Studies.

The Integration Strategy Is Based on Economic Grounds

Both Ukraine and the European Union are interested in closer ties. This was the idea proved by First Deputy Minister for Foreign Affairs Evhen Bersheda in his speech at the Round table. Mr. Bersheda emphasised the meaning of the economic basis of the EU s Ukraine convergence strategy. This strategy should be developed proceeding from the situation in Ukraine's economy, the need for economic reforms in this country and the willingness of Ukrainian leaders to adhere to the reform agenda. Ukraine declared her intention to build a European-type socially oriented market economy, European-style socialism so the European countries' economic experience is immensely valuable for Ukraine.

Working closely with the European Union and carrying out policy towards integration into the European structures, Ukraine will be able to export her products to well-developed markets of European countries. The characteristics of these markets are more attractive to Ukrainian exporters than those of the CIS markets, since rules and regulations are transparent and civilised and consumers prefer high technology products. From the very beginning, economic co-operation and partnership between Ukraine and the European Union will be built on the grounds of equality, without claims for any political concession. The European Union can also help Ukraine carry out economic reforms by providing financial and technical assistance.

On the other hand, the European Union itself is interested in the development of ties with Ukraine because:

- Ukraine has a base of rich natural

resources which is close to the European Union;

- Ukraine is potentially a very attractive market with a consumption pattern similar to that of the European Union;
- the Ukrainian economy has large growth potential;
- Ukraine can become a stronghold for European companies wishing to enter eastern and southern markets.

Co-operation in the energy sector can become an important part in EU s Ukrainian relations. Ukraine is an important transit country for fuel and energy resources consumed by European states. That is why stability in Ukraine is vital for energy security of the European Union. Ukraine has a highly developed nuclear power industry and can become an important market for European manufacturers of energy equipment. Moreover, in COMECON times, Ukraine exported electricity to Central Europe and has certain chances of re-establishing herself in that capacity.

Ukraine is situated on the crossroads of Eurasia and the shortest route from the Black Sea to the Baltic Sea runs through the territory of Ukraine s Odessa-Brody-Gdansk. Co-operation between Ukraine and the European Union may help establish this route as an important transport corridor, not only as a direction of Caspian oil transportation.

Political aspects also play a noticeable role in the convergence strategy of Ukraine and the European Union. European integration can become a consolidating idea for Ukrainian society. As integration of the European Union deepens, the security component of the European Union will become increasingly important. This

enhances interest towards Ukraine as a key country in the European security system and lays the foundations for Ukraine's relations not only with the European Union, but with the West European Union and NATO.

Partners at the Crossroads

The current situation in Ukraine can really be described as a crossroads: in the economy s the necessity to carry out radical reforms, in finance s unbalanced budget and the problems of serving the external debt, in politics s presidential elections. But the European Union also faces certain questions to be urgently solved: comprehensive institutional reform, the enlargement strategy, functioning of the Economic and Monetary Union, development of new goals and ideas, for instance in the field of justice and foreign affairs co-operation. To successfully solve these issues, both Ukraine and the European Union need to sustain stable relations and develop sound economic ties. This idea was suggested by Denis Daniilidis, First Secretary of the European Commission Delegation in Ukraine.

EU enlargement presents new opportunities for Ukraine by developing traditional co-operation links with the newly acquired EU members Poland and Hungary. Ukrainian enterprises have a chance of integrating into production chains of European companies. Ukrainian enterprises can use their competitive advantages: high skilled and cheap labour and natural resources.

Head of the ICPS Supervisory Board Bohdan Hawrylyshyn stated that the development of closer relations between Ukraine and the European Union has already become a reality. Thus it is worth moving towards the discussion of convergence mechanisms, support of integration processes, harmonisation of social and economic institutions in Ukraine and the European Union. The European Union should express its will to grant membership to Ukraine. This in turn would encourage and support internal changes in Ukraine.

Round table discussion "Ukraine s EU: Convergence Strategy", co-sponsors: the Ukrainian Foreign Policy Association and the International Centre for Policy Studies, supported by the Friedrich Ebert Foundation (Germany). Friday, 12 March 1999.

Last Week

Restructuring of the Ministry of Economy optimises functioning of the government. Economic policy cannot be sound if responsibilities within the government are distributed inefficiently, states Dusan Vujovic, administrative reform expert from the World Bank. Mr Vujovic made a presentation "The Role of Economic Ministries in the Reformed Government" at the weekly seminar at the International Centre for Policy Studies on Tuesday, 9 March.

Mr Vujovic suggested that the Ministries should be given more voice in formulating the state policy and the role of the Ministry of Economy within the executive branch should be changed.

Administrative reform should not envisage the reduction of the role of the Ministry of Economy but must its role completely different. The Ministry should be responsible for long-term planning, preparation of the national and regional economic development strategy.

Though giving away certain functions the Ministry of Economy will in fact become much more efficient through strengthening its research and macroeconomic analysis capacities.

This Week

What grounds should the relationship between the state and private capital be built on? The macroeconomic seminar on 16 March will be devoted to the subject-matter "Property Rights Transformation and Administrative Reform". The speaker will be Olexander Paskhaver, President of the Economic Development Centre.

Next Week

Can Ukraine borrow anything from the Belarus economic model? In a week, Economic Advisor of the World Bank John Hansen will present his research "Roads to Riches or Roads to Ruin? What can be learned from the experience of Ukraine and Belarus?" at the ICPS Tuesday macroeconomic seminar. John Hansen will analyse the Belarus economic model and will try to answer the questions whether it is effective and whether Ukraine should use the experience of Belarus when designing her own economic strategy.

Crisis Encourages Enterprises to Restructure

How does the crisis affect Ukrainian enterprises? In what way should enterprises adapt to the new business environment? The Business Opinion Survey project team of the International Centre for Policy Studies carried out a special investigation to answer these questions. Deterioration of the business environment in Ukraine caused a fall in output, growth in barter transactions, a surge in commodities and finished goods prices, accumulation of arrears and can lead to higher unemployment.

Consequences of the Crisis

When answering the question about the consequences of the crisis, most managers (83.4%) mentioned deterioration of the general economic situation which could be characterised by the following: increase in prices of Ukrainian raw materials and commodities (71%), decrease in demand (51%), fall in the number of new orders (26.6%). Already little opportunities for managers to attract financial resources dwindled further (21%), pointed at the deterioration of the terms of borrowing. Depreciation of the hryvnia which produced a negative impact on Ukrainian enterprises (91%) led to foreign exchange constraints (13.4%) and made foreign raw materials and spare parts more expensive to purchase for 19% of managers questioned, 13.4% of them mentioning non-performance of the contracts concluded before the breakdown of the crisis.

One out of every four managers believed that the crisis led to an increase in the use of barter by enterprises, with state owned enterprises using barter more frequently than private ones. Thus, only 15.1% of state owned enterprises did not use in kind payments, while this indicator reached 35.3% for private firms.

Barter was especially widespread in agriculture. In the third quarter when the crisis occurred, the share of enterprises which did not use barter decreased to 3% from 12.3% in the previous quarter.

Business Environment Calls for Crisis Management

The ability of an enterprise to operate under the current economic conditions depends on the activities of its management aimed at resisting the influence of the crisis.

Even a brief review of the information

obtained during the investigation leaves little grounds for optimism: one fourth of the managers questioned had no idea about ways of adapting to the business environment, which had changed radically. The next 4% of managers did not plan any special measures. Thus about 1/3 of managers did not develop any strategy of managing their enterprise under the crisis conditions.

Amongst the enterprises which did plan certain measures, 30.3% decided to raise the prices of their output. Other measures included developing a new marketing strategy (30.3%) and internal restructuring (27.7%).

About 1/3 of enterprises are planning to shed personnel through sacking (18.8%) or sending employees on unpaid vacations. This idea received most votes from managers of heavy industry enterprises. The fact that managers are starting to perceive the necessity to cut the number of employees suggests that it may be the crisis which triggers real structural changes in the basic branches of industry.

33.5% of questioned managers said that the measures they planned would include wider use of barter (19%) or changes in the form of payments (14.5%), which means transferring to in kind payments. Managers of construction material manufacturing enterprises were the most active supporters of these methods (31%). This suggests that the construction material industry will regain its leading position in the use of barter transactions.

Other crisis management measures described by managers included: decrease in output (14.8%), accumulation of payable debt (7.2%), accumulation of wage arrears (4.5%), change in the field of operations (4.1%), suspension of production (3.8%), reduction of prices (3.8%) and closure of enterprises (1%).

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