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EUROPEAN INTEGRATION: CHALLENGES FOR FOREIGN TRADE

The practical significance of this study lies in highlighting the challenges accompanying the process of implementing the principles of the European integration process for Ukrainian trade and the possibilities of economic responses to them. The aim of the study is to identify risks and threats to Ukraine's trade caused by the development of the European integration process. To achieve the goal, the methods of theoretical generalization, analysis and synthesis were used. According to the results of research by leading scholars, the main challenges accompanying the process of EU integration with Ukraine in the field of trade have been determined. The risks and threats caused by the process of European integration for Ukraine are classified into the following groups: political, financial, the use of labour force, commodity, competitiveness, technological, environmental, and social. It was noted that in order to overcome the mentioned risks and threats, Ukraine needs to significantly diver-

ЄВРОІНТЕГРАЦІЯ: ВИКЛИКИ ДЛЯ ЗОВНІШНЬОЇ ТОРГІВЛІ

Практична значущість цього дослідження полягає у виокремленні викликів, що супроводжують процес імплементації засад євроінтеграційного процесу для торгівлі України та можливостей економічних реакцій на них. Метою дослідження є визначення ризиків та загроз для торгівлі України, що викликані розвитком євроінтеграційного процесу. Для досягнення поставленої мети використано методи теоретичного узагальнення, аналізу та синтезу. За результатами досліджень провідних науковців визначено основні виклики, що супроводжують процес інтеграції ЄС з Україною у сфері торгівлі. Ризики та загрози, що спричиняє для України процес євроінтеграції, класифіковано у групи: політичного, фінансового характеру; використання робочої сили; товарні; конкурентоспроможності; технологічні; екологічні; соціальні. Зауважено, що для подолання зазначених ризиків та загроз Україні потрібно



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sify its efforts. The set of measures related to the implementation of the European integration process includes: continuation of the announced reforms, expansion and diversification of markets for Ukrainian products, protection and support of Ukrainian producers. In this situation, measures to overcome economic crime and proposals for changes to the Agreement that will maximally take into account the interests of Ukraine are also important.

Keywords: European integration, foreign trade, advantages, challenges, Association Agreement with the EU, reforms, development.

JEL Classification: E69, F29, H56.

суттєво диверсифікувати свої зусилля. До комплексу заходів щодо імплементації процесу євроінтеграції входять: продовження заявлених реформ, розширення та урізноманітнення ринків збуту української продукції, захист і підтримка українських товаровиробників. У цій ситуації важливими є заходи для подолання економічної злочинності та пропозиції змін до Угоди, які будуть максимально враховувати інтереси України.

Ключові слова: євроінтеграція, зовнішня торгівля, переваги, виклики, угода про Асоціацію з ЄС, реформи, розвиток.

Introduction

The important task of the Ukrainian economy is to maintain macroeconomic stability, which is complicated by the war with the Russian Federation and the loss of a significant part of the country's potential. Budget spending on military needs increased significantly, opportunities for free trade decreased, and Ukraine's domestic market stagnated. According to the Association Agreement with the EU, a free trade zone with the EU was introduced on January 1, 2016, which is still in effect. The practical significance of this study lies in highlighting the challenges accompanying the process of implementing the principles of the European integration process for Ukrainian trade and the possibilities of economic responses to them.

Actual issues of the theory of European integration are investigated by experts from various European countries: A. Wiener, T. Borzel, T. Risse [1], K. Boronska-Hryniewiecka [2], P. Maassen and J. Olsen [3], S. Nissen [4]. There are also highlighted the current crises of the economy, the impact of migration and security, assessed the strengths and weaknesses of different approaches and considered new problems in the researches of the group of authors of the University of Berlin on the main approaches to European integration [1]. The opinion of P. Maassen and J. Olsen regarding the reforms and challenges from Europeanization, which appeared before economists [3] is correct. K. Boronska-Hryniewiecka studied the dynamics of the transformation of the working regime of parliaments in decentralized EU systems and noted that the most important factors influencing the effectiveness of parliamentary activity are the state of the internal management system and the relationship between the executive and legislative powers [2]. S. Nissen studies the traditional mechanism of scrutiny of parliamentary issues for the use in the EU context. His researches demonstrate the slow process of Europeanization [4]. S. Hobolt and C. de Vries investigated the issue of public opinion regarding European integration. The issue of public support and opposition to European integration, focusing on conceptualization, causes, and consequences was examined in this article. In particular, it shows the essence of public support for European integration, how to explain the difference in

its support and Euroscepticism. The authors noted that although more and more literature and mass media try to explain the need for individual support of European integration, additional efforts are needed to understand how opinions are shaped by the national context and how public opposition to the European Union creates challenges for the future integration project and the opportunities for its realization. [5]. In their article, L. Hooghe and G. Marks examined four significant events of the last decade: Eurocrisis, migration crises, Brexit, and neoliberalism, which have their roots directly in European integration. The shortcoming of this article, in our opinion, is insufficient study of the mutual influence of world trade and the process of European integration [6].

A fairly wide range of domestic scientists were interested in the peculiarities of the European integration process, in particular I. Anisimov, T. Vlasjuk, Ya. Bazyliuk, N. Kaliuzhna, M. Korzh, L. Kudyrko, G. Duginets, A. Mazaraki [7–11] and others. In the works of these authors, the main aspects of Ukraine’s foreign trade and the problems of the integration processes of the world economy are thoroughly analysed. Dynamic and constant changes in the global economy, geopolitical sphere, require constant monitoring of the process of European integration as a direction of further development of Ukraine. We note that economic science does not have time to respond in a timely, systematic and adequate manner to rapid changes in the political and economic space, which affects the development of many spheres of the state, in particular, foreign trade. The dynamism of changes contributes to the emergence of new challenges facing the trade of Ukraine and determines the need for further research.

The aim of the study is to identify risks and threats to Ukraine’s trade caused by the development of the European integration process.

To achieve the goal, the methods of theoretical generalization, analysis and synthesis were applied. The results of researches by leading scientists were used to determine the main challenges accompanying the EU integration process with Ukraine in the field of trade.

1. Issues of trade management measures within the Agreement

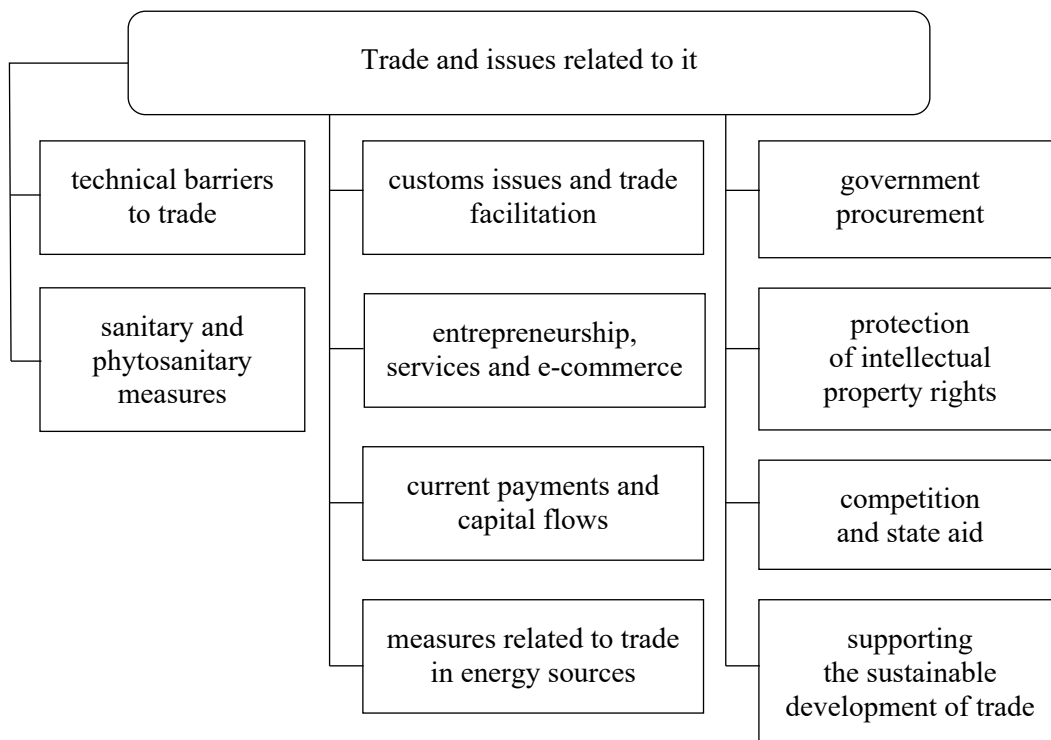
The process of European integration began after the Second World War as a result of bipolar influence – NATO and the countries of the Warsaw Pact led by the USA and the USSR. Bipolarity has spread to the periphery of international relations: the Korean War, the political blocs of the Asian continent. The motives of European integration that have been formed so far have been determined by the following narratives:

- hope to ensure security and peace;
- striving for freedom and mobility;
- striving for economic development and well-being;
- the desire to spread its influence in international relations.

Jean Monet, Robert Schuman, Konrad Adenauer and Alcide de Gasperi defined the idea of European integration, which actually began to be realized in 1951 with the signing of the Paris Agreement on the establishment of the European Coal and Steel Community (ECSC) by six countries of Western Europe. At that time, in the conditions of post-war recovery, the role of industrialization and the need to stabilize the iron and steel market was growing. The consequence of the Paris Agreement was the growth of steel production, the supply of iron, iron scrap and coal stabilized.

Currently, the leading goal of the trade and foreign economic policy of the EU is to achieve the best conditions for European producers and consumers. At the same time, the EU strategy contains the principles of aid for poor nations. Instruments of the transformative influence of European integration are treaties, agreements and laws that unite states by common standards.

The European integration portal (eu-ua.org) has been created, which provides analytical data and conclusions regarding the European integration process, called «Pulse of the Agreement», which displays all activities and actions related to the areas of the Agreement. Trade issues are covered in Chapter Four of the Agreement, entitled «Trade and Trade-Related Matters», which examines measures divided by areas (*Figure*).



The lines of actions provided for in Chapter Four of the agreement relating to trade

Source: compiled by the authors.

2. Analysis of the asymmetry of foreign trade with the EU

The analysis of exports and imports between Ukraine and the EU (tables 1, 2) shows a significant asymmetry: raw materials and products with low added value are exported from Ukraine, and products with higher added value and a higher level of innovation are imported from the EU.

In 2019, the indicator of export of goods amounted to USD 50,054.6 million, showing a growth of 5.7% compared to the previous year. At the same time, the import indicator was USD 60,790.4 million. In 2020, export and import indicators decreased, this is mainly due to the impact of the pandemic and the decrease in cooperation with the Russian Federation. It is positive that the balance, although negative, has decreased in absolute terms. In 2021, the indicators of export and import increased, which indicates the intensification of trade. However, the balance still remains negative.

According to the results of the analysis of the structure of export of goods in 2021 by types and dynamics, an increase in the share of exports of agricultural products, food and mining industries, which have little added value and are unprofitable for the economy of Ukraine, is recorded. At the same time, in the structure of the import of goods in 2019, an increase in the share of imports of mechanical and electrical devices, means of land transport was observed. This trend continued in 2020 and 2021.

The tendency to export from Ukraine mostly raw materials that have little added value suggests the irrationality of such trade and the need to change the assortment and the need to expand strategic partnership not only with the EU, but also with the countries of Asia and Africa.

It is positive that within the framework of supporting the economy of our country during the war, the European Union provided the possibility of duty-free and quota-free trade.

3. Risks for Ukraine's trade caused by cooperation with the EU

The advantages of the development of cooperation with the EU are given in the appendix [11]. However, the process of European integration causes certain risks and threats for Ukraine, grouped according to the results of the analysis of sources [13–18], which are classified into the following groups: political, financial, labour use, commodity, competitiveness, technological, environmental, social. Let's consider them in more detail.

The group of political risks and threats includes: EU demands for Ukraine to speed up requests for legislative changes and reforms (electoral legislation reform, solving problems of selective legal transaction, fight against corruption).

Table 1

The structure of exports of goods to EU countries in 2010–2021, % (by groups of goods that account for more than 5% of exports)

Code and name of goods according to UCGFEA (UKTZED)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
II. Products of vegetable origin (except oil)	7.4	11.6	16.4	18.9	17.3	18.8	18.7	18.5	18.3	21.6	18.1	22.8
III. Fats and oils of animal or vegetable origin	4.8	3.7	3.4	3.0	4.7	5.2	5.3	5.6	5.7	7.4	9.9	10.3
V. Mineral products	18.7	19.7	18.7	17.4	16.2	11.4	12.1	13.1	13.4	13.0	11.1	12.4
IX. Wood and wood products	3.9	3.5	3.5	3.7	4.4	5.5	5.6	5.3	5.2	4.8	5.3	2.9
XV. Base metals and products from them	33.2	32.8	30.8	27.5	26.0	23.5	21.6	21.9	22.0	18.3	16.7	23.5
XVI. Machines, equipment and mechanisms; electrical equipment	12.4	10.7	10.6	11.4	12.2	13.8	13.7	14.1	14.2	13.6	14.8	7.7

Source: compiled by the author for [12].

Table 2

The structure of imports of goods from EU countries in 2010–2021, % (by groups of goods with more than 5% of imports)

Code and name of goods according to UCGFEA (UKTZED)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
IV. Ready food products	5.3	4.7	5.1	5.3	5.7	5.1	5.4	5.9	6.2	6.7	8.3	4.9
V. Mineral products	6.8	7.1	9.2	11.5	18.3	22.7	21.6	17.6	14.1	11.2	7.2	20.5
VI. Products of the chemical and related industries	19.2	17.4	18.0	18.4	18.2	17.2	17.5	17.0	17.3	17.5	19.2	13.4
VII. Polymeric materials, plastics and products from them	9.5	8.3	8.1	7.9	8.1	8.4	8.0	7.6	7.3	6.7	7.2	6.6
XV. Base metals and products from them	6.9	6.8	6.3	5.8	5.4	5.1	5.0	5.1	5.3	5.3	5.2	6.0
XVI. Machines, equipment and mechanisms; electrical equipment	20.4	24.1	22.5	19.1	17.5	17.4	18.3	20.7	22.1	21.7	21.7	19.5
XVII. Means of land transport, aircraft, floating vehicles	8.3	10.5	10.5	10.7	5.9	5.7	6.1	8.9	10.0	10.0	12.1	9.7

Source: compiled by the author for [12].

The group of *financial* risks and threats includes: the need to attract private capital, which is possible only if their use is significantly profitable; the need for a significant amount of funding for the implementation and adaptation of new legislative acts; Ukraine's financial obligations within the requirements for joining the EU have been partially fulfilled. The following remain insufficiently resolved:

- the issue of credit recovery, which should be greater;
- lending to the real sector by banking and non-banking financial institutions is restrained by insufficient protection of creditors' rights, as well as the problem of non-performing loans;
- state support for lending to the real sector of the economy remains fragmented and insufficiently effective;
- on the stock market, the volumes of operations with shares and bonds of enterprises are very small;
- the infrastructure of capital markets and commodity markets remains underdeveloped;
- the development of the non-banking financial market requires changes in legislation to adjust with international standards.

The group of risks and threats of *workforce management* includes the lack of broad opportunities for the introduction of free movement of workforce from Ukraine and the increase in the level of unemployment.

The group of risks and threats to *competitiveness* include: increased competitive pressure on the domestic market of Ukraine; low level of competitiveness of industrial enterprises (individual domestic producers are not ready for international competition, the growth of foreign investments in some cases has a negative aspect – foreigners may become owners of the main means of production); displacement of the national producer from the domestic market.

Technological risks and threats: the need to re-equip and change production technologies in accordance with EU standards, which requires significant financial investments.

The group of *commodity* risks and threats includes: resource direction of export; too high degree of openness of the domestic market and dependence on foreign economic conditions; quota of a significant number of types of goods; price imbalances that do not take into account the level of solvency of the population of Ukraine;

Environmental risks and threats include phytosanitary requirements, which are slowly being implemented in the production of Ukraine.

The content of *social* risks and threats is the risks of aggravation of certain contradictions (social consequences of reforms: unemployment, lower living standards of the majority of the population, lower educational and cultural levels).

The aggression of the Russian Federation against Ukraine made significant adjustments to the system of foreign trade relations as well. According to

research by specialists of the National Institute of Strategic Studies [18], negative changes have taken place in foreign trade, but not of such a catastrophic nature as was predicted for the beginning of March 2022. The list of the most significant of them includes:

- decrease in world prices for key goods exported from Ukraine;
- increase in world prices for goods imported to Ukraine;
- double negative balance;
- the existing danger of trade in Ukrainian food products;
- Ukraine's significant need for fuel and energy products in the presence of a sharp increase in world prices for them.

The loss of sea traffic led to a decrease in trade with many countries of the world, which significantly reduces the economic stability of Ukraine.

Observing the reaction of the world (sometimes ambiguous or completely indifferent) to the aggression of a multi-million country, one can determine who is who in the political and economic arena. The invasion of Russia stimulated an increase in the number of supporters of European integration both among the population of our country and among other countries. Therefore, Ukraine received support in the form of military and humanitarian aid and the experience of EU actions in crisis conditions. The government of Ukraine quickly reacted to the economic crisis by introducing the necessary changes in the legislation not only to support the economy, but also to save and survive the Ukrainian people.

Conclusions

The measures considered in the Fourth Chapter of the Agreement on trade are sufficiently substantiated and are set out on the «Pulse of the Agreement» resource. Despite the changing situations both in the world and in individual partner countries of Ukraine, further research is needed, in particular, it is important to expand the list of measures in each direction and replenish the already mentioned blocks.

The conducted analysis of the asymmetry that has developed in foreign trade determines the need to change the structure of trade, which in turn requires further study of modern conditions of rapid changes in the socio-economic state in the country and the world.

To overcome these risks and threats, Ukraine needs to significantly diversify its efforts. Undoubtedly, the main goal of Ukrainians now is to win, survive, work and return the occupied territories. At the same time, the process of European integration as the main vector of the political and economic development of Ukraine requires the creation of an appropriate set of measures. This complex includes: continuation of the declared reforms, expansion and diversification of markets for Ukrainian products, protection and support of Ukrainian producers. In this situation, measures to overcome economic crime

and proposals for changes to the Agreement which will maximally take into account the interests of Ukraine are also important.

In the future, the obtained research results can be used to develop recommendations for making informed management decisions within the framework of Ukraine's trade development programs under various conditions of uncertainty in the external environment, which are complicated by the war, which will contribute to strengthening Ukraine's security in the field of foreign economic relations.

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