

# Macroeconomic effects of international regional economic integration: Global practice and challenges for Ukraine\*

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**ABSTRACT.** In the article the causes and macroeconomic peculiarities of the formation and operation of international regional economic associations of various forms have been studied. A hierarchical classification of modern international regional economic integration groups is presented. The contribution of the world's largest integration groups to the global GDP has been analyzed. The main macroeconomic results of countries' participation in integration associations of different forms on the pre-establishment and post-establishment stages have been described, the positive effects obtained by countries in the result of introduction of certain common economic activity conditions have been determined. Potential risks for Ukraine related to European Integration and prospective positive effects of integration into the world economy have been determined. Conceptual principles of state policy of blocking of the potential risks of international regional economic integration for Ukraine have been substantiated.

**KEYWORDS.** International regional economic integration, world integration blocks, economic and monetary union, free trade area, customs union, macroeconomic integration results, integration processes of Ukraine, European integration risks.

## Introduction

The effective state management of processes of economic integration of Ukraine into the world economy requires the substantial study of current globalization trends, dominant forms of regional groups, and consequences of their formation and operation. Development of common vectors of economic and management activity determines for partner countries not only essential

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changes in size and structure of their foreign economic operations but also substantial transformation of macroeconomic environment of market entities operation.

Results of international exchange of goods, services, manpower and capital form new parameters of internal macroeconomic balance of the country contributing to the increase of its economic growth rates due to attraction of new sources and factors. At the same time, active expansion of the world economic cooperation and deepening of integration processes stipulate the transfer of economic order risks and crisis cyclic exposures of each of the countries being members of a group to other international partners. Such the risks may embrace both the internal political, socio-cultural, economic threats related to the results of national economic entities functioning, and the unexpected shocks arising from extraordinary circumstances. Their influence becomes destructive for macroeconomic stability and can attain a global extent extending to the inter-related and inter-integrated national economic systems of different countries of the world.

Participation of Ukraine as a macroeconomic entity in the processes of integration into the world economy with the purpose of maximum realization of positive consequences of cooperative economic activity is currently strategically determined, irrevocable and not having the reasoned counter-arguments. Having passed a difficult period of economic system transformation towards the market principles, Ukraine extremely needs today to apply positive effects of deepening of international cooperation which will allow to enjoy to the fullest extent available competitive advantages and to form new and more advanced ones. This aspiration of Ukraine will allow using effectively the potential of domestic and foreign economic specialization and assurance of intensive growth of the foreground fields and types of activity and attaining, on this basis, of the sustained social and economic development.

In view of intensification of integration processes during the last few decades, a great attention was paid to this problem both among foreign and domestic scientists. In particular, substantial contribution to investigation of globalization and international integration effects was made by A. Venables<sup>2</sup>, E. Herstein<sup>3</sup>, M.

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<sup>2</sup> *Venables A.J. Winners and Losers from Regional Integration // The Economic Journal. 2003. Vol. 113. October; Venables A.J. Regional Integration Agreements: A force for convergence or divergence? // World Bank and LSE Prepared for the Annual Bank conference on Development Economics in Paris, June 1999.*

Grosso<sup>4</sup>, K. Deutsch<sup>5</sup>, Djohn D. Daniels<sup>6</sup>, D. Dion<sup>7</sup>, I. Klimenko<sup>8</sup>, G. Marholit<sup>9</sup>, A. Libman<sup>10</sup>, V. Losheniuk<sup>11</sup>, D. Lukianenko<sup>12</sup>, S. Makuha<sup>13</sup>, A. Marovchik<sup>14</sup>, N. Ovcharenko<sup>15</sup>, J. Pinder<sup>16</sup>, A. Poruchnyk<sup>17</sup>, S. Radzievska<sup>18</sup>, I. Soloaga<sup>19</sup>, J. Tinbergen<sup>20</sup>, V. Us<sup>21</sup>, D. Ushkalova<sup>22</sup>, V. Chuzhykov<sup>23</sup>, M. Schiff<sup>24</sup> and others. The results of their researches were the determined conse-

<sup>3</sup> Gershtein E.F. Differentiation and integration of industry: theory and practice of development: Thesis... Doctor of Economics.: 08.00.05. /Efim Feliksovich Gershtein. – Minsk, 1993. – 340 p. [In Russian].

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<sup>12</sup> Lukianenko D.G. Global economic integration: Monograph. – K.: LLC «Natsionalnyi pidruchnyk», 2008. –220 p. [In Ukrainian].

<sup>13</sup> Makuha S.M. Ukraine in international economic relations under the conditions of economic globalization. – Kharkiv: Legas, 2003. –350 p. [In Ukrainian].

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<sup>15</sup> Ovcharenko N.E. Models of modern integration processes. – M.: Prospect, 2003. –451 p. [In Russian].

<sup>16</sup> Pinder J. Positive integration and negative integration // European integration / edited by F. Roy Willis. – New York: New Viewpoints, 1975.

<sup>17</sup> Poruchnyk A.M. National interests of Ukraine: economic self-reliance in global dimension: Monograph. – K.: KNEU, 2008. – 352 p. [In Ukrainian].

<sup>18</sup> Radzievska S. O. Competitiveness and integration perspectives of Ukraine / S.O. Radzievska. – K.: Knowledge of Ukraine, 2012. –344 p. [In Ukrainian].

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<sup>23</sup> Chuzhykov V.I. International regional economic integration // International competitiveness management under economic development globalization: Monograph: U 2 v. — V. 2. / D.G. Lukianenko, A.M. Poruchnyk, L.L. Antoniuk et alia; For gen. editor D.G. Lukianenko, A.M. Poruchnyk. — K.: KNEU, 2006. — pp. 40–79. [In Ukrainian].

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quences of economic integration for the results of countries' foreign trade, influence of introduction of common customs tariffs on internal conditions of competitive environment and foreign competitive position of the country. At the same time, taking into account the current durable crisis economic situation in Ukraine, both in the state finances sector and at the commodity and money markets, which intensifies internal barriers of its integration processes, a research of the potential of possible challenges, advantages and threats for domestic macroeconomic environment is required.

The aim of the article is substantiation of macroeconomic effects of formation and operation of different forms of integration groups of countries all over the world and possible countermeasures of state policy towards potential risks of economic integration of Ukraine.

### **Hierarchical classification of modern international regional economic integration groups**

The current state of economic relations requires from specific national economic systems of principally new approaches to national economy operation. One of these requirements is participation in or formation of integration associations within individual regions or worldwide. The objective basis of this requirement includes a number of economic factors, the main of which are:

- deepening of international labor division and specialization of national economic systems under the high competition level conditions;
- the necessity of obtaining of up-to-date technologies and results of global scientific and technical revolution;
- the essential effect on national economy development of transnational corporations, which invest their capitals into countries with a high level of national economy liberalization and participation in international economic activity.
- the necessity of achievement of specific economic, social, geopolitical, military and cultural and historical goals etc.

Development of the firm relationships on the basis of complementarity of the above factors promotes transfer of the economic life internationalization process on such a level where a global network of relations in the integral world economy is created with the active participation of the most developed countries and developing countries by participating in integration blocks. Such a tendency speeds up because of several reasons. Developed countries, through international division of labor, deepening of pro-

duction specialization and economy development on a complementary basis, achieve substantial economic improvements. First of all, a knowledge-based sphere should be determined which accelerate, due to production cooperation, the economic growth rates and decreases cost of production. In turn, sustained economic development and economic growth contribute to the decrease in the general inflation level and the increase population employment. Such positive effects give rise to psychological effect "domino", when less developed countries, one by one, enter integration associations, since being aside from integration movements is not of economic benefit.

Refusal to participate in such the network for an economic system means operation under the conditions of severely limited resource base that significantly decreases the general level of economy competitiveness in whole. Moreover, the diversity of social and economic, geographical, geopolitical, historical and social and cultural conditions gives rise to the variety of international integration forms, each of which is, by definition, unique and realizes specific economic, social, geopolitical and cultural and historical goals.

During XXI century intensification of integration processes at the regional level took place. Such a tendency is explained by territorial proximity and availability of close neighbor contacts in business circles, and results in creation around one or another country or group of the most developed countries of integration areas – large economic mega-blocks. The increasing interrelation or even interdependence of manufacturers of certain countries based on both labor division and exchange of its results, and organization of common manufacture through cooperation, combination and complementarity of production and technological processes, result in appearance of system-related interconnections of national economic systems all over the world.

The modern integration associations, the main characteristics of which are given in table 1, are quite different in the level of integration and key aspects forming their basis. The mass expansion of integration associations gets different configurations – from formal ones, within which numerous bilateral agreements exist (South Asia Association for Regional Cooperation), to mega-blocks providing cooperation in all fields and spheres of human activity (EU). The most of such blocks represent an ordinary trade integration the main purpose of which is liberalization of economic relations within certain frameworks. Such association, as a rule, are based on one of the main forms of integration, and the others, deeper forms of integration, include not only liberalization of economic relations but also provide the possibility of energy integration, creation of a political pact, joint defense pacts, nuclear disarmament pacts etc.

**Table 1 Comparative analysis of main international regional economic integration groups of the world**

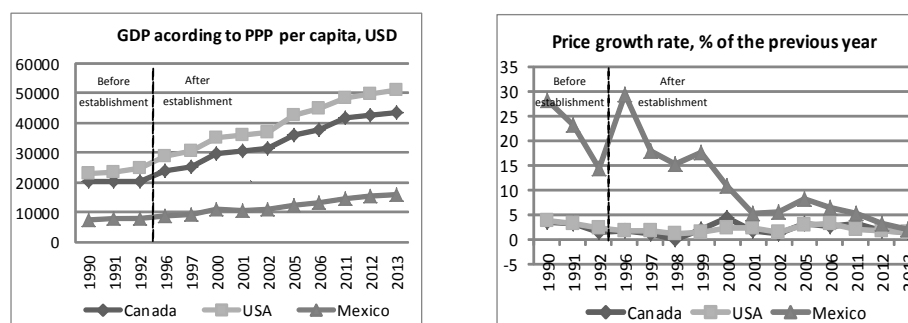
	Free trade area		Economic and monetary union		Free movement		Political pact	Defense pact
	active	active	Common market	Monetary union	Visa free regime	Elimination of borders		
European Union	active	active	active	active	active	active	active	active
European Free Trade Association	active	active	active	active	active	active	active	active
NAFTA	active	active	active	active	active	active	active	active
Caribbean Community	active	active	active	active	active	active	active	active
Economic Community of West African States	active	active	active	active	active	active	active	active
Central African Economic and Monetary Community	active	active	active	active	active	active	active	active
East African Community	active	active	active	active	active	active	active	active
South African Development Community	active	active	active	active	active	active	active	active
Common Market of East and South Africa	active	active	active	active	active	active	active	active
African Union	active	active	active	active	active	active	active	active
Union of South American Nations	active	active	active	active	active	active	active	active
Andean Community	active	active	active	active	active	active	active	active
Union of South American Nations	active	active	active	active	active	active	active	active
Customs Union "Russia-Belarus- Kazakhstan"	active	active	active	active	active	active	active	active
MERCOSUR	active	active	active	active	active	active	active	active
Eurasian Economic Community	active	active	active	active	active	active	active	active
League of Arab States of the Gulf States	active	active	active	active	active	active	active	active
Association of Southeast Asian Nations	active	active	active	active	active	active	active	active
Central American Common Market	active	active	active	active	active	active	active	active
Central American Free Trade Area	active	active	active	active	active	active	active	active
North American Free Trade Area	active	active	active	active	active	active	active	active
Forum of Pacific Islands	active	active	active	active	active	active	active	active

Source: developed by the author based on the data of the World Trade Organization and UNCTAD: World Trade Report 2006-2013. [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/reser\\_e/wtr\\_e.htm](http://www.wto.org/english/res_e/reser_e/wtr_e.htm); World Investment Report 2006-2013. [Electronic resource]. – Access mode: <http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx>; World investment prospects survey 2013-2015. [Electronic resource]. – Access mode: [http://unctad.org/en/PublicationsLibrary/webdiaeia2013d9\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webdiaeia2013d9_en.pdf)

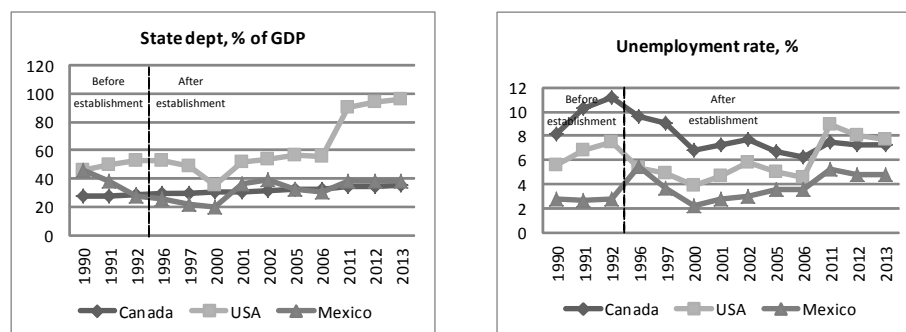
### Assessment of macroeconomic effects of international regional economic integration

One of the most common forms of international regional economic integration association is a free trade area, which provides not only bilateral simplification of international trade by decreasing internal tariffs but also full liquidation of customs barriers in mutual trade. Liberalization of trade and economic relations and strengthening of countries' specialization within free trade areas will result in the continuous increase in size of world commodity exchange operations between them. In 2013 five largest free trade areas, which have become the centers of world trade, covered over 90% of world import and, in connection with participation of certain countries in several free trade areas in the same time, over 100% of world export<sup>25</sup>.

One of the most powerful trading blocks is North American Free Trade Area (NAFTA). This association has consolidated around one of the world leaders of economic development – USA, a share of which is over 10% of the world GDP. In addition to UAS NAFTA includes the highly developed economy of Canada, as well as economy of Mexico, which has hardly reached a level of new industrial countries. It was expected that creation of the said free trade area and the further liberalization of economic relations would create a new economic impulse for all members of NAFTA and form the conditions for a qualitatively new level of development of economic relations. NAFTA, which was established in 1994 in the framework of regional cooperation development, has passed the quiet interesting way of development, the macroeconomic results of which are presented in the figure 1.



<sup>25</sup> Determined according to the data: World Trade Report 2006–2013. [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/reser\\_e/wtr\\_e.htm](http://www.wto.org/english/res_e/reser_e/wtr_e.htm); WTO International Trade Statistics [Elec-tronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statis\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statis_e/its_e.htm)



**Fig. 1.** Main macroeconomic indicators of development of NAFTA members

*Source: developed on the basis of statistics databases of the World Bank and UN<sup>26</sup>.*

Dynamics of the consolidating value of GDP calculated at par value of purchasing power as per head of population indicates that in all NAFTA countries an increase of economic development and level of social welfare took place. During the 20-year period, due to globalization, deepening of NAFTA countries' specialization and significant extension of their trade and economic relations, Canada has 2,69 times increased its GDP per head of population, USA – 1,86 times, and Mexico – 1,7 times. Highly developed economies of USA and Canada have got much greater macroeconomic effect from association, than Mexico, and it arose immediately after conclusion of an agreement because of doubling of the growth rate of real GDP from 2,6% in 1993 up to 4,5% in 1994<sup>27</sup>. At the same time, in Mexico, the positive GDP dynamics was found to be significantly weaker and became visible only in 1996, which fact is explained by the necessity for a weaker country to convert and re-direct its national production towards the needs of other participants of the free trade area.

An evidence of positive influence of establishment of NAFTA free trade area is stability of the consumer goods price level. During 1994-2013 inflation dynamics of USA and Canada was benign and didn't exceed 5% annually (Fig. 1). Exclusion was

<sup>26</sup> United Nations Commodity Trade Statistics Database, [Electronic resource]. – Access mode: <http://comtrade.un.org/db/dqQuickQuery.aspx>; World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

<sup>27</sup> Determined on the basis of statistics database of the World Bank: WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statistics\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statistics_e/its_e.htm)



Mexico, where inflation level began to increase from 1994 in consequence of financial and economic crisis caused by a critical level of foreign loans. The crisis consequences were mitigated only at the end of 1999 by means of decrease of foreign exchange reserves and over USD 50 billion of financial aid of which USD 20 billion were provided by USA. It should be mentioned that one of the main reasons of provision of an unprecedented amount of money by USA was participation of Mexico in NAFTA. On the other hand, a great number of world leading specialists tend to think that crisis in Mexico of 1994 was caused by a too high level of national economy liberalization. In spite of low competitiveness of national manufacturers, Mexico set, from 1986, its sights on full-scale liberalization resulting in sharp increase of import. Such the tendency and the absence of proper industrial policy conditioned shake-out of national manufacturers from the market. Trade and payment deficit appeared which was covered by foreign financing. Foreign loans increased external debt to a critical level and costs for its servicing became an intolerable burden for Mexico. As a result, the government had to reduce social expenditures and freeze wages thus decreasing the common living standard of population. Decrease of consumers demand had a negative influence on production volumes in the country; however economy lost its ability of self-financing resulting in appearance of "domino effect".

Macroeconomic effect from international regional integration processes for the state fiscal system of associations' member countries is reflected by a state debt amount. During the whole period of operation of NAFTA free trade area its countries demonstrated a firm tendency towards accumulation of the state debt share in GDP (Fig. 1). In particular, it increased to a maximum extent in USA from 52,8% in 1992 to 96,1% in 2013. In Canada during the same period it increased from 28,3% to 35,2%, and in Mexico – from 28,1% to 37,9%<sup>28</sup>. The reason of such worsening of the general condition of state finances of these countries is a manifestation of the world financial and economic crisis which greatly affected USA economy.

Creation of the free trade area between USA, Canada and Mexico had a positive influence on the regional labor market stimulating creation of new jobs. However, the unemployment rate in these countries had cyclic dynamics demonstrating economic recovery after recurrent financial crisis, in particular in

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<sup>28</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

2000 and 2008. In general, during the twenty year period of existence of NAFTA the unemployment rate in USA decreased from 7,5% in 1992 to 4,6% in 2006 and then increased to 7,7% in 2013, in Canada during the same period the unemployment rate decreased from 11,2% to 7,3%, and in Mexico it increased from 2,8% to 4,8%. Moreover, during the whole period of analysis, the unemployment rate in these countries didn't increase more than 2% from the moment of creation of the free trade area and was maintained within the limits of panel unemployment which can not be eliminated even under the best market condition. A great number of jobs created for effective cooperation of Mexico, Canada and USA within NAFTA has formed a considerable macroeconomic contribution to these countries development.

Principally new features are acquired by another form of international regional integration – customs unions. Like free trade areas, they provide elimination of trade barriers, and at the same time they are a deeper form of cooperation, since they form a common trade policy concerning third countries. Thus, a country, becoming a member of a customs union, not only removes trade barriers but also agrees to establishment of a common foreign tariff which is imposed upon import from such third countries. Profits from this instrument are distributed on a quota basis.

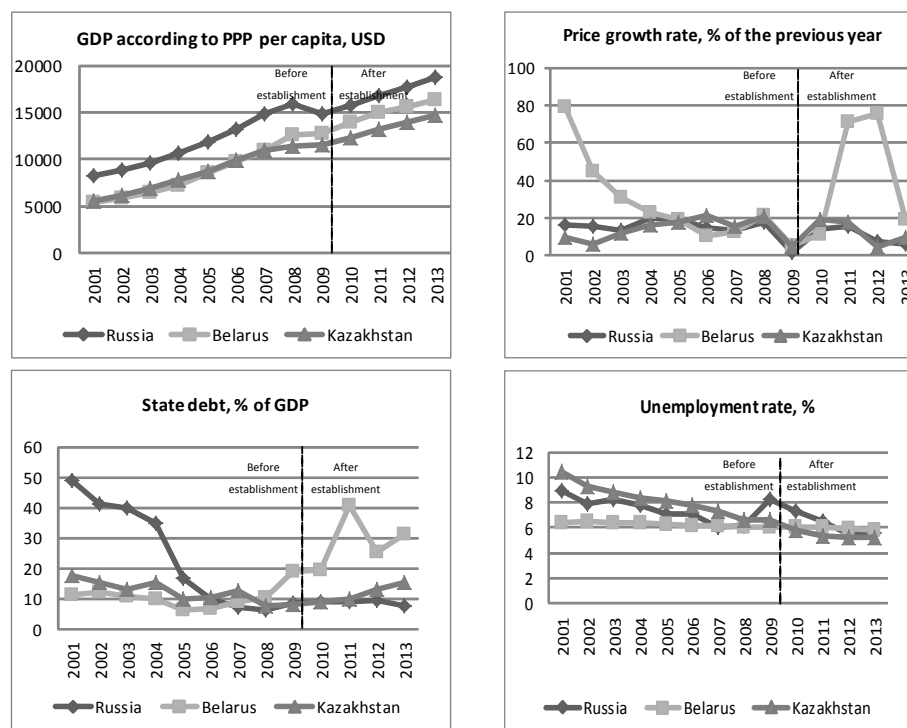
In 2014 the most powerful three representatives of regional customs unions of the world, namely East African Community (EAC), Cooperation Council for the Arab States of the Gulf (CCASG), and South African Customs Union (SACU) provided over 2,8% of world GDP<sup>29</sup>. In the context of assessment of potential integration effects of Ukraine, the particular attention should be paid to investigation of macroeconomic results of performance of the Customs Union of Russia, Kazakhstan and Belarus, which was established in 2010 in the framework of regional cooperation of CIS countries and embraced over 2,4% of world population. According to first deputy head of the government of Russia I. Shuvalov<sup>30</sup>, the Customs Union was considered as "an interim stage towards creation of a common economic space from the Atlantic to Pacific Ocean... Then, it is planned to enter into free trade agreements with EU and Asia-Pacific Region countries". At the same time, formation of the Customs union creates essential competitive advantages for access to commodity and resources

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<sup>29</sup> Determined on the basis of statistics databases of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

<sup>30</sup> Shuvalov: The Customs Union – only an interim stage of transcontinental integration [Electronic resource]. – Access mode: <http://www.regnum.ru/news/1380296.html#ixzz1GgYtvc2P>. [In Russian].

markets for former USSR countries relatively to other regional players, – first of all EU, China and Turkey. For the period of operation of the Customs Union all its countries witnessed an increase of GDP, moreover adoption of common policy allowed partial reduce the negative effects of financial and economic crisis of 2008-2009. In particular, during 2010-2013 GDP per capita in all countries of the Customs Union was up by almost 20% and in average GDP growth was USD 2 000 annually (Fig. 2).



**Fig. 2.** Main macroeconomic development indicators of member countries of the Customs Union "Russia-Belarus-Kazakhstan"

Source: developed on the basis of statistics databases of the World Trade Organization, the World Bank and UN<sup>31</sup>.

The amount of state debt of Kazakhstan and Belarus after forma-

<sup>31</sup> United Nations Commodity Trade Statistics Database, [Digital resources]. – Access mode: <http://comtrade.un.org/db/dqQuickQuery.aspx>; WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statistics\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statistics_e/its_e.htm); World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

tion of the Union somewhat increased and, in spite of the substantial increase of GDP per capita, its share in GDP fluctuated at the average level (Fig. 2). The divisive tendencies of change of the state debt were demonstrated by Belarus where its share in GDP increased 1.5 times during 2010-2013. The main reasons of such dynamics are mainly related to internal economic crisis in the country, which started in the middle of 2010, and it is conditioned by long-term trade deficit and wide use in economy of command management elements. Action of such crisis manifestations considerable intensified the negative market expectations resulting in feverish demand for foreign currency and economically unjustified increase in wages before the presidential election in 2010.

Analysis of price performance after establishment of the Customs Union also shows its certain improvement in Russia and Kazakhstan and short-term worsening in Belarus. Volatile price situation and irregular inflation trend have changed and inflation processes have acquired another nature (Fig. 2). Thus, the inflation level in Kazakhstan and Russia began to decrease which like in NAFTA countries after NAFTA formation. At the same time, Belarus demonstrated rapid price increase during 2011-2012 (4 times), caused by internal crisis in the country and rapid crisis resolution in 2013.

Positive shifts in economic development of Customs Union countries are also demonstrated by unemployment rate dynamics. Over the years its performance in all three countries there was a tendency of unemployment rate decrease directly related to increase of production volumes. In 2013 each country of the Customs Union hit bottom of unemployment for the last decade. In particular, in Russia it amounted 5,6%, in Kazakhstan – 5,2%, in Belarus – 5,8%<sup>32</sup>.

The most integrated group of international regional associations is common markets and economic unions. Like other forms of integration groups a common market provides elimination of trade barriers and availability of common foreign trade policy concerning third countries. A distinctive feature of this form of integration is the absence of restrictions to flow of main production factors significantly extending cooperation in such fields of state policy as monetary, tax, employment fields etc. The said feature causes differentiation of macroeconomic effects for member countries in view of their economic development level being a significant obstacle for spreading of regional common markets. In particular, accession to a co-market of less developed countries can convert them into com-

<sup>32</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

modity markets for more developed countries. In addition, establishment of economic unions provides free movement of goods, services and production factors on their territories; however, unlike common markets they allow harmonization of fiscal and monetary policies of member countries as well. Actually, accession of a country to an economic union means delegation of a part of its state leverages to special supranational bodies.

The largest international groups in the form of common markets, which operated in the world arena in 2014 were the Common Market of Southern Cone (MERCOSUR), Andean Community (AC) and Caribbean Community (CARICOM), which together produced almost 6% of total GDP. In international context, GDP per capita of CARICOM (USD 9300) of CARICOM is significant amounting almost the worldwide average level, GDP of MERCOSUR (USD 10860 per person) is the highest. In addition, the latter association has the largest shares of export and import amounting correspondingly 3,4% and 2,3% of the worldwide volume<sup>33</sup>. That's why we will demonstrate the further analysis of macroeconomic effects of formation and operation of common markets on the example of MERCOSUR.

In 1985 Argentina and Brazil signed Argentina-Brazil Economic Integration and Cooperation Program (PICE), and as a full-scale association MERCOSUR came into existence in 1991 after signing by Argentina, Brazil, Paraguay and Uruguay of Asuncion Treaty which determined a mechanism of cooperation and structure of the customs union and common market of these counties.

Currently, MERCOSUR is a powerful association since it combines 55,3% of population of Latin America and Caribbean countries (over 300 million persons), 40% of direct foreign investments, 33% of volume of foreign trade of countries of the region. Total GDP of members of the union amounts USD 3,3 billion<sup>34</sup>. In size and economic potential MERCOSUR is a second customs union following EU and the third free trade area after EU and NAFTA. Successful development of the association promoted positive macroeconomic effects of each member country.

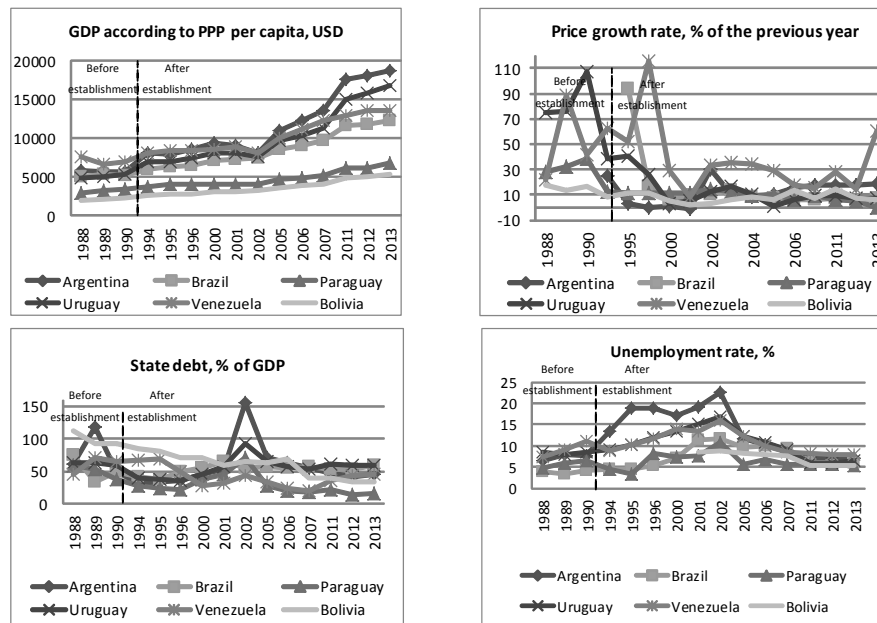
MERCOSUR history confirms significant macroeconomic effect for its countries reflected in substantial increase of their economic development level during the last decade (Fig. 3). The particularly successful and most developed participants of this union are Argentina and Uruguay, which during 1991-2013 increased their GDP per capita more than 3 times, accordingly 18700 and USD 16700. Brazil and Bolivia reached slightly lower

<sup>33</sup> Determined on the basis of statistics databases of the World Trade Organization and the World Bank: WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statis\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statis_e/its_e.htm); World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

<sup>34</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

results, their GDP per capita for this period increased 2,3 times (up to USD 13600 and 12300 accordingly). The least developed members among MERCOSUR countries are Paraguay and Venezuela, where in 2013 GDP per capita amounted USD 6700 and 5300 (1,9 times more than in 1991)<sup>35</sup>.

The positive macroeconomic shifts in MERCOSUR countries during the last decade are also evidenced by dynamics of inflation level (Fig. 3). Before 2001 all participating countries were characterized by the firm tendency towards uneven increase and decrease of inflation level, which fact is related to internal economic transformations and crisis developments. The said processes were most pronounced in Brazil and Argentina where during 1990-1994 price growth amounted 2 thousand percent, and in Venezuela where in 1996 inflation was over 100%<sup>36</sup>. It should be mentioned that the latter didn't manage to fully calm political and economic situation in the country with which inflation fluctuations during the whole period are properly connected.



**Fig. 3.** Main macroeconomic development indicators of MERCOSUR countries

*Source: developed on the basis of statistics databases of WTO, the World Bank and researches of economists<sup>37</sup>.*

<sup>35</sup> The same.

<sup>36</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

<sup>37</sup> WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statistics\\_e.htm](http://www.wto.org/english/res_e/statistics_e.htm); World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>; Reinhart C. M. From Financial Crash to Debt Crisis [Electronic resource] / C. M. Reinhart, K. S. Rogoff // NBER Working Paper 15795. Forth-coming in American Economic Review. – 2010. – Access mode: <http://www.reinhartandrogoff.com/data/browse-by-topic/topics/9/>.

During the first 10 years of common operation all MERCOSUR countries witnessed the difficult and unstable dynamics of state debt – GDP ration, a share of which was quite high and in certain years it had tendency to growth. Staying under the conditions of internal economic crisis caused, according to IMF<sup>38</sup>, by weakness of the budgetary and tax policy, adverse external influence and inflexibility of economic systems, MERCOSUR countries obtained significant external public loans dynamics of which have gone out of governments' control. While at the beginning of 1990-ies a share of gross government debt in GDP in MERCOSUR countries was within the range of 40-60% (except Bolivia, where its level exceeded 90%), in 2002 this figure jumped and amounted in Argentina over 150%, Uruguay – over 90%, Paraguay – over 70%<sup>39</sup>. However, by the end of 2013 the state debt level in MERCOSUR countries significantly decreased evidenced by gradual approximation of their economic systems and acquiring by them of common features.

The long period of MERCOSUR operation also affect essential transformation of labor markets of member countries. Like the inflation level and state debt share in GDP, the unemployment rate dynamics had an uneven nature; however for the last years there have been a tendency towards approximation and adjustment of this indicator (Fig. 3). During 1990-2002 a sharp increase of the number of unemployed persons took place, in particular, to the maximum extent, in Argentina (up to 22%), Uruguay (up to 17%) and Venezuela (up to 16%). Later, in MERCOSUR countries a downward trend of unemployment rate was formed in the result of which in 2013 a share of unemployed persons ranged 5-7%<sup>40</sup>.

In terms of analysis of the most important integration groups in the form of economic union a special role is played by European Union being the deepest level of integration of economic systems all over the world with over 50-year experience of cooperation. It has passed, in its development, all stages of international regional economic integration – from a free trade area and

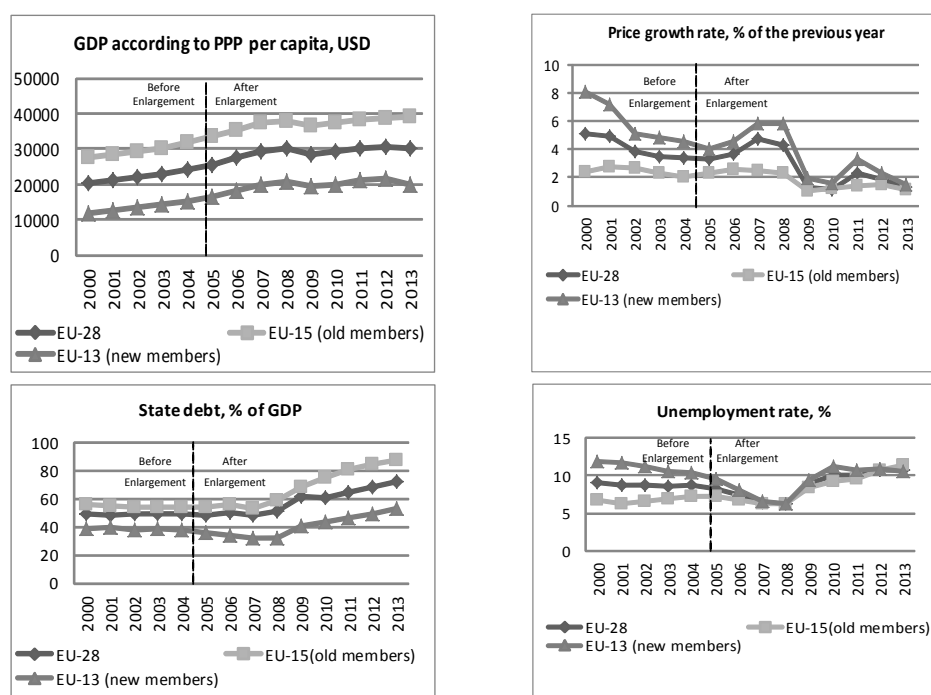
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<sup>38</sup> *Krueger A.* Crisis Prevention and Resolution: Lessons from Argentina [Electronic resource] / Anne Krueger // Cambridge. Conference on "The Argentina Crisis" – Access mode: <https://www.imf.org/external/np/speeches/2002/071702.htm>.

<sup>39</sup> Determined on the basis of: *Reinhart C. M.* From Financial Crash to Debt Crisis [Electronic resource] / C. M. Reinhart, K. S. Rogoff // NBER Working Paper 15795. Forthcoming in *American Economic Review*. – 2010. – Access mode: <http://www.reinhartandrogoff.com/data/browse-by-topic/topics/9/>.

<sup>40</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

customs union (1957) to economic and monetary unions (1980), and a political union (1992). The current composition of EU was formed step by step by accession of individual interested countries. Essential enlargement of EU took place in 2004 when it was accessed by 10 countries at the same time, among them are Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Cyprus and Malta. Notwithstanding that in 2007 Bulgaria and Rumania jointed EU, and in 2013 – Croatia; the enlargement that took place in 2004 had a more important influence on economic condition and development opportunities of EU. So, we will perform analysis of macroeconomic effects from EU operation by comparing achievements of the countries on the stage of enlargement in 2004 and afterwards (Fig. 4).



**Fig. 4.** Main macroeconomic development indicators of EU countries

Source: developed on the basis of statistics databases of the World Trade Organization, the World Bank and UN <sup>41</sup>.

EU countries-15 – old members: Belgium, Luxembourg, Neth-

<sup>41</sup> United Nations Commodity Trade Statistics Database, [Electronic resource]. – Access mode: <http://comtrade.un.org/db/dqQuickQuery.aspx>; WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statistics\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statistics_e/its_e.htm); World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>



erlands, France, Germany, Italy, Denmark, Ireland, Great Britain, Greece, Spain, Portugal, Austria, Finland, Sweden.

EU countries-13 – new members: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Cyprus, Malta, Bulgaria, Romania, Croatia.

All EU countries demonstrate high indicators of economic development. During the analyzed 13-year period the average GDP per capita there increased approximately 1.3 times and at the end of 2013 it exceeded the worldwide average level more than three times. At the same time, the average level of the same indicator in new EU members is USD 20 000 less than in the old EU members<sup>42</sup>. In 2007, after accession of Bulgaria and Romania, dynamics of GDP per capita in all EU countries became negative because of the world economic crisis.

Regarding assessment of economic benefits each stage of EU enlargement may be considered to be quite successful both for old and new member countries. This is connected with a high level of convergence of their economic systems which shows up in approximation of average growth rates of main macroeconomic indicators and stipulates sharing of common cycling features of development of new and old EU countries. A similar tendency is also expressed in price dynamics, unemployment rate and state debt (Fig. 4).

At the beginning of 2000s the price growth rates in old and new EU members were significantly different, moreover in certain periods the maximum difference was about 5,5 pp<sup>43</sup>. After the enlargement of 2004, notwithstanding the unevenness of influence of the world economic crisis, price dynamics in EU countries drew closer and varied within the creeping rate, however new participants demonstrated somewhat higher level of inflation as compared with EU founders.

A macroeconomic effect of the enlargement of 2004 for EU labor market was represented by essential approximation and averaging between the countries of unemployment rate indicator. While in 2000 under the conditions of high differentiation of economic development the unemployment rate in 13 new EU countries, which for that time were only potential members, was 6 pp. higher than in EU-15, in the process of their economic operation as a single system this indicator was averaged and approximated. It was apparent to the greatest extent in 2007-2008

<sup>42</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

<sup>43</sup> The same.

when the average unemployment rate in EU varied within the range of 6,7-6,3%<sup>44</sup>. The world economic crisis of 2008, which appeared unevenly in EU countries, caused further differentiation of the unemployment rate; however dispersion between its values in EU new and old members at the end of 2013 considerably decreased as compared with the beginning of 2000s.

Manifestations of convergence and close interrelation between economic systems of EU countries is dynamics of a share of state debt in GDP which in 2008 has a downwards nature both in old EU members and in new ones; however thereafter, under the influence of the world economic crisis, it changed to the opposite in all countries at the same time.

Thus, research of main macroeconomic indicators characterizing the results of formation and operation of different international integration associations of the world has shown that each of their forms – from a free trade area to a customs union – contributes to gradual approximation and coordination of economic dynamics. All the analyzed integration associations show the general increase of GDP growth rate from the beginning of their joint operation. Comparison of the dynamics of real GDP growth rate on the stages before and after establishment (or enlargement) of the analyzed regional economic associations witnessed the existence of a common tendency towards their convergence. Thus, in particular, in NAFTA free trade area countries the annual GDP growth rates approached in average to 1,02%, and in countries of the Customs Union of Russia, Belarus and Kazakhstan – to 1,04%. Such a tendency is also inherent to the countries of MERCOSUR common market: if before establishment the association the annual GDP growth rates in its countries varied from 0,98% to 1,06%, then after establishment they approximated to 1,03%. In EU countries which have the highest level of integration among the analyzed forms of associations, the differentiation of the annual GDP growth rates have also considerably decreased from 1,02%-1,07% before the enlargement of 2004 to 1,02%-1,024% afterwards<sup>45</sup>.

<sup>44</sup> Determined on the basis of statistics database of the World Bank: World Development Indicators. [Digital resource – Access mode: <http://data.worldbank.org/indicator/all>

<sup>45</sup> Determined on the basis of statistics databases of the World Trade Organization, the World Bank and UN: United Nations Commodity Trade Statistics Database, [Electronic resource]. – Access mode: <http://comtrade.un.org/db/dqQuickQuery.aspx>; WTO International Trade Statistics [Electronic resource]. – Access mode: [http://www.wto.org/english/res\\_e/statis\\_e/its\\_e.htm](http://www.wto.org/english/res_e/statis_e/its_e.htm); World Development Indicators. [Electronic resource]. – Access mode: <http://data.worldbank.org/indicator/all>

### **Substantiation of state policy of blocking of the potential risks of international regional economic integration for Ukraine**

For Ukraine, integration into the world economic system is a way of economy modernization, attraction of foreign investments and high technologies, formation of competitive advantages of domestic manufacturers, integration into powerful European value chains, and the possibility to enter into new markets. The performed research has shown that each form of economic group – from a free trade area to a customs union – are characterized by both positive and negative macroeconomic effects expected in the future in Ukraine as well. In this connection, the extent of manifestation of these effects will be different in the short, medium and long terms. The most common short-term integration effect for countries is the mutual trade volume (practically in all free trade areas and customs unions). In the medium term countries will get benefits from competitiveness growth (regulatory unification, convergence at the expense of common policies implementation, obtaining of financial aid from the joint budget) and the recoil action from production and sale scale, and mobility of production factors (common market, economic and political unions). All indicators mentioned above were present in most countries involved in European integration (especially during the first years).

After political revolution in 2014 and re-election of the president and the parliament Ukrainians chose European integration vector. This way provides that Ukrainians will have to pass all stages of the integration process feeling deeply each of the analyzed forms of association.

Ukraine accession to the economic group with a high level of competitiveness will give the opportunity to enjoy integration benefits for improvement of macroeconomic stability due to partial transfer of its risks to the more developed countries; however such effect shouldn't be expected in the short term. This especially concerns the employment sphere, since EU currently has its internal problems at the labor market. Concerning the state debt, one shouldn't expect a positive integration effect too. According to the performed research, its dynamics demonstrates multidirectional orientation after joining of countries into regional economic groups, and is determined not by the results of foreign trade growth and workforce overflow, but mostly by the internal financial condition of the private and state sectors and budgetary and tax policy of countries' governments. The actual increase of real GDP growth rates and general improvement of

the social and economic condition of a country due to the benefits from international integration may be expected only in the long-term perspective.

In the process of Ukraine approach to EU the negative factors of European integration will be inevitable, which will be especially heavy burden for citizens during the first adaptation stages. Such risks in particular include the financial burden of contributions to EU, influence of direct competitiveness on the part of European companies in the course of increase of openness of the national economy which will be accompanied by bankruptcy of non-competitive enterprises and negative social consequences. For Ukraine, EU is not only a large commodity market but also a source of meeting of consumer and investment needs. In addition, trade with EU is an important channel of inflow of freely convertible currency which will permit to limit bartering the volume of which endangers the economic safety of the country. In addition, joining by Ukraine of EU and Schengen visa-free zone will create a great number of social advantages because it will provide more opportunities of employment, education, medical treatment, leisure, meanwhile controlling internal unemployment.

While consideration of the issue of EU accession a matter of priority should be a problem of merger of energy potentials of countries within Eurasian continent, consolidation of role of Ukraine as an energy state. The fact that Ukraine with its transit potential is high on the list in Europe determined the special importance of national transport policy.

In general, it should be mentioned that with deepening of the integration level the level of national sovereignty of member countries of regional blocks is decreasing, consequently mechanisms of protection against global threats and risks is more often created collectively through coordination of the national interests system with joint supranational management bodies. The deeper and closer international economic relationships of Ukraine will be the higher will be the level of its economic dependence on partners and the less will be internal capabilities of countermeasure and protection against the effect of external integration risks.

Thus, if Ukraine enters a free trade area, in particular with EU, the government, in order to balance internal macroeconomic parameters will have the possibility to influence them by means of the necessary stimulating or restraining customs and tariff instruments of foreign trade policy with third countries, but if Ukraine plunges into the customs union area such measures of state policy will be unavailable. At the same time, accession to

both the free trade area and the customs union will provide to Ukraine other leverages of macroeconomic policy which are effective for affecting the internal labor market condition and price situation in the country. In particular, they may include monetary, fiscal and social policy measures.

The further deepening of the processes of international integration of Ukraine will create new external challenges for its economic system, adjustment to which is not possible in the short period without prior preparation of all fields and sectors. In case of accession to a common market the government of a participating country loses not only leverages of foreign trade policy but also means of regulation of international financial and economic and investment activity within the common market, as well as migration policy instruments; at the same time the sectoral restrictions by supranational bodies of the volume of export-import operations are possible. Accession to an economic and customs union provides the delegation by national governments of monetary policy instruments and a full range of sectoral policies and inter-industry (horizontal) spheres of regulation to the supranational level.

That's why, for the purpose of the effective adaptation of economy of Ukraine to different stages of integration processes, there is a necessity to develop the most adequate measures of the internal state policy in compliance with standards of member countries of international associations and taking into account priorities of national development. Coordination of state management instruments in different member countries of a regional economic group will allow to counteract more effectively both manifestations of imbalances within the association and external risks, and also will contribute to balancing and approximation of their economic development.

### **Conclusion**

The variety of socio-economic, geographical, geopolitical, historical and socio-cultural conditions causes the diversity of international integration forms each of which in its nature is unique and accomplishes absolutely specific economic, social, geopolitical and cultural and historical purposes.

World Integration associations exist within limits of five continental markets, the most developed of which is Eurasian continental Market, since integration within all its blocks has attained the most meaningful and the deepest level. Besides, according to the amount of contribution to the world GDP, transnational fi-

nancial and investment activity, export-import transactions and migration flows of labor resources the most mature global integration blocks are such representatives of different forms as North American Free Trade Area (NAFTA), Market of Southern Cone (MERCOSUR) and Eurasian Union which is the deepest integration organization.

The performed research of macroeconomic effects of formation and operation of different types of integration groups has shown increase of economic growth rates and approximation of countries' economic development manifested in price stabilization and decrease of the unemployment rate. In all analyzed integration associations, in addition to the general increase of GDP growth rate from the moment of their formation, their essential approximation relative to the average level is traced. The effect of "pulling up" of economic development of the less developed member countries of the group due to attraction of external financing sources from the more developed countries is manifested. Furthermore, this effect is manifested in a longer period in less integrated forms of association and in a shorter perspective subject to closer extents of international coordination and cooperation. Thus, in NAFTA free trade area countries the effect of the greatest approximation of macroeconomic indicators, especially unemployment rate, was manifested almost 15 years after formation of the association, in MERCOSUR common market countries – in 11 years, and in Eurasian Union – in 4 years after enlargement.

For Ukraine, which is today at the preparatory stage before the deepening of its integration relations, it may be expected that in the long-term perspective European integration will generate positive dynamic effects to be manifested in the improvement of a mega-regional system of labor division and gradual increase of population welfare in EU member countries. At the same time, immersion into global economy requires from the government of Ukraine taking into account of all potential external challenges and threats arising in connection with strengthening of international economic relations. It is necessary to perform adaptation of national state management instruments to the practices of partner countries within an integration group and development of the long-term strategy of prevention of possible negative effects of integration.

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