

EUROPEANIZATION IN THE CONTEXT OF GROUP INTERESTS POLITICS: CASE OF UKRAINE

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The paper describes the relationship between the existing level of institutional development in Ukraine and the prospects for institutional changes with the signing of the EU – Ukraine Association Agreement. Attention is paid to the key differences of modern politics of European integration from the conditions of the previous EU enlargement for Ukraine. The role of group interests politics and the role of corruption as an informal governance tool in influencing public confrontation and saving the actual uncertainty in the foreign policy of the country has been defined. Among the main conditions for the elimination of contradictions there identified the following: transformation processes under the enhanced foreign competition as a result of the implementation of the EU – Ukraine Association Agreement, as well as balancing the overvalued and undervalued expectations about European integration among the population.

Keywords: institutional change, Europeanization, Association Agreement, group interests politics.

Fig.: 2. **Tabl.:** 1. **Bibl.:** 15.

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Власенко М. О., Курінна І. Г. Європеїзація в контексті політики групових інтересів: українська версія

У статті описується взаємозв'язок між існуючим рівнем інституційного розвитку в Україні та перспективами інституційних змін у зв'язку з підписанням Угоди про Асоціацію між Україною та Європейським Союзом (ЄС). Увага приділяється ключовим відмінностям сучасної політики європейської інтеграції для України від умов попереднього розширення ЄС. Визначено роль політики групових інтересів, а також роль корупції, як неофіційного інструменту управління, у впливі на суспільне протистояння і збереження фактичної невизначеності у зовнішній політиці країни. Серед основних умов для усунення протиріч визначено такі: трансформація під впливом посилення зовнішньої конкуренції як результат реалізації Угоди про Асоціацію між Україною та ЄС, а також збалансування переоцінених і недооцінених очікувань з приводу європейської інтеграції серед населення.

Ключові слова: інституційні зміни, європеїзація, Угода про Асоціацію, політика групових інтересів.

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Власенко М. А., Куренная И. Г. Европеизация в контексте политики групповых интересов: украинская версия

В статье описывается взаимосвязь между существующим уровнем институционального развития в Украине и перспективами институциональных изменений в связи с подписанием Соглашения об Ассоциации между Украиной и Европейским Союзом (ЕС). Внимание уделяется ключевым отличиям современной политики европейской интеграции для Украины от условий предыдущего расширения ЕС. Определена роль политики групповых интересов, а также роль коррупции, как неофициального инструмента управления, во влиянии на общественное противостояние и сохранение фактической неопределенности во внешней политике страны. Среди основных условий для устранения противоречий определены следующие: трансформация под влиянием усиления внешней конкуренции как результат реализации Соглашения об Ассоциации между Украиной и ЕС, а также сбалансирование переоцененных и недооцененных ожиданий по поводу европейской интеграции среди населения.

Ключевые слова: институциональные изменения, европеизация, Соглашение об Ассоциации, политика групповых интересов.

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Modern Ukraine has been carrying out the process of social and political formation, looking for its geostrategic identity under socio-political and economic transformation. In this complex transformation process Ukraine has been overcoming the difficult path to the creation of a new integrated institutional system, the formation of which is largely determined by a focus on European values and practices. At the same time, the specific place of Ukraine in the geopolitical and geo-economic space [2] determines the contradictions that arise in connection with the activation of the Ukrainian-European integration

politics and institutional changes in the course of Ukraine's Europeanization.

In this paper we attempt to study connections between the low level of institutional development and causes of latent counteraction to the Europeanization of Ukraine on the part of political interest groups, which is displayed in the contradictions among the population about the official path of Ukraine to European integration. Relatively high level of corruption has been preserved during several decades in Ukraine, indicating inefficiency of the public governance and programs to fight corruption. In fact, corruption has be-

come a permanent informal management tool influencing citizens' political choices. Basing on the identified causes of opposing the institutional changes, we suggest the following ways to resolve them: 1) real foreign competition as a way to influence the political and economic group interests and 2) public education to eliminate the information asymmetry regarding the conditions of EU-Ukraine Association Agreement (hereinafter – AA) and upcoming changes in the course of reforms. Although the paper partly focuses on the Europeanization of Ukraine in the economic area, we suppose that institutional changes during the transformation of the Ukrainian economic system should address all activities and interactions between citizens and public authorities.

The institutional issues of the Europeanization promotion to the East were developed in papers of D. Brennaman, S. Lavenex, S. Opper, F. Schimmelfennig; causes and consequences of opposing the institutional changes in the emerging market countries were studied in papers of A. T. Guzman, D. North, R. Rajan and L. Zingales; the assessment of prospects of European integration enhancing for Ukraine was made by I. Burakovskyy, A. Breslavska, N. Shelud'ko, etc.

The active phase of European integration course implementation for Ukraine started in 2014, which was associated with the signing of the AA (the ratification by the EU Member States is in progress). The present stage of the European integration politics assumes the increased demands for new applicants for the EU membership, including Ukraine, as the European Neighbourhood Policy implies more comprehensive institutional reforms at the stage of Free Trade Areas [12]. It implies the requirements for implementing the entire system of EU law (Acquis Communautaire) into legislation of the candidate countries and/or partner countries before their joining the EU. The requirement of full implementation of the European standards and the likelihood of positive consequences for population from their introduction in Ukraine under uncertainty of joining the EU caused heated debates in Ukrainian society.

From a theoretical point of view the requirement for institutional convergence given in the European Neighbourhood Policy for Ukraine may promote attributiveness of its economic development through copying the models for creating domestic models of market relations. Positive charac-

teristic of attributiveness is to introduce market organization of the country's entire economic system, creating preconditions for the emergence of a new type of economic interactions and determining the outcome of institutionalization process. It provides accelerating the evolution of transitive economic systems, which reduces the time of transition to a more advanced economic system and resource costs of it. It should be noted that the borrowing of legislation (without intention of integration), which proved to be effective, was a very common practice not only in Europe but also in other countries of the world [6].

The importance of institutions can be explained with its ability to reduce uncertainty, organize and structure the relationships among people, define and limit the set of alternatives. Such restrictions are both formal (law, regulation) and informal (customs and traditions) [9].

Overall, the Ukrainian institutional environment may be described as problematic, particularly as regards the rule of law and corruption that slows the development of democratic institutions, integration into European structures and pace of economic reforms (Table 1).

One of the reasons for the negative dynamics of institutional indicators performance is the continued prevalence of non-market and anti-democratic institutions in economic relations, such as the lack of transparency in decision-making at all levels, inefficient enforcement mechanisms, corruption, law regulatory quality and low consumer protection, lack of confidence in the judicial system, etc.

In practice, while "borrowing" institutions, the initial conditions, national characteristics and timeliness of innovations must be taken into account, which in case of transitive countries should be understood as an attempts to implement market rules in the environment dominated by informal non-market institutions, which comes from the gap between the elimination of old rules and the lack of an effective system of the new ones.

It is a well-known fact that a change in the law requires a relatively short period of time while the deep institutional changes may take decades.

If the necessity for key institutional changes during the transformation of the economic system (such as ownership rights, market liberalization and the rule of law) was not

Table 1

Quality of institutions in Ukraine (in dynamics)

Indicators	2006	2007	2008	2009	2010	2011	2012	2013	2014
Corruption perception index (0–10)	2.8	2.7	2.5	2.2	2.4	2.3	2.3	2.4	2.6
Regulatory quality (–5 – +5)	–0.50	–0.43	–0.51	–0.60	–0.55	–0.56	–0.61	–0.64	–0.63
Government effectiveness (–5 – +5)	–0.56	–0.729	–0.735	–0.82	–0.77	–0.83	–0.58	–0.65	–0.58
Strength of investor protection index (0–10)	3.7	3.7	3.7	4.7	4.7	4.7	4.7	4.8	4.9
Rule of law (–5 – +5)	–0.89	–0.8	–0.74	–0.8	–0.8	–0.86	–0.86	–0.83	–0.79
Extent of disclosure index (0–10)	1	1	1	5	5	5	5	4	4
Notes: the interval from the worst to the best value (–5; +5) is indicated in brackets.									
Good	Above average			Average		Below average		Bad	

Source: calculated and built by [5; 15].

in doubt among the state elites, then the development and implementation of appropriate package of reforms aimed at deep institutional changes and replacement of the existing economic system remained a problem after more than 20 years of reform experiments.

In particular, the adaptation of European norms and standards in Ukraine may become a problem as well due to, firstly, existence of “transplantation effect” in the result of the EU legislation’s import [1], and secondly, formality in rules adaptation (on demand of the AA) without its actual application¹.

Creating an effective legal framework for economic development is not the main purpose of EU directives; they form the legal basis for strengthening integration and completing the single market. EU framework legislation is based on a double principle of minimum standards and mutual recognition. Accordingly, national laws that are to be harmonized with the European standards must not contain more stringent requirements than the minimum requirements set out in EU directives [1]. State’s ability to independently and effectively carry out institutional reforms that are specific to a particular country is the most important factor in determining the overall success of the reforms [10, p. 400]. Nevertheless, the European legislation may serve as guidelines not only for the candidate accession countries but also for the potential applicants and neighbouring countries as an example of “best practice”.

From the very beginning of the transition to a market economy Ukraine borrowed elements of practice and regulation in the European experience and legislation (in particular from Germany). Nevertheless, the creation of an institutional framework through borrowing institutions has not led to the construction of a similar model of capitalism.

Ukraine faces one of the key problems of institutional reforms: “Institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to create new rules” [9, p. 360].

Construction of capitalism on Ukrainian scenario takes place on the ground of continuing post-socialist practices, due to which objectives of the transformation have not been achieved (in particular, as in other post-Soviet countries, privatization in Ukraine has not led to the formation of efficient owners). Saving the state of affairs even with a visibility of market reforms allows political elites, closely connected with the owners of large capital, to benefit from the ability to centrally manage all aspects of economic life in their own interests.

Corruption in this case appears not only as a consequence of ineffective governance system but also as an informal tool of governance. This informal governance mechanism involves forcing individuals, whose incomes

depend on scarce² payments from the central government (public administration, medicine, law enforcement and the judiciary, education, etc.) to seek additional sources of income to ensure minimum necessary or acceptable standard of living. As a result, skilled and highly skilled employees are forced either to monetize their knowledge and power at the expense of the consumers of services or to change jobs, which is extremely difficult in conditions of permanent economic crisis. Due to existence of official prohibition of corruption some officials may exert pressure, use so-called “administrative resources” (for example, to influence the juridical system in order to get favourable judgements in the courts). Though a selective punishment for those who do not obey the “instructions” may be applied. It may give rise to a violation of democratic rights and freedoms of citizens, particularly during the political elections. Thus, due to the corruption instruments political elites may ensure the preservation of their political positions, to slow reforms and oppose the real institutional change.

This approach supports the preservation of the multi-vector character and uncertainty of Ukrainian foreign policy, which provides the visibility of its balance but in fact it limits economic, socio-political and cultural development in Ukraine. It may be confirmed with evaluations and ratings compiled by international organizations in terms of economic, political, financial and human development, in which Ukraine has traditionally occupied low positions with the highest potential for a breakthrough.

Ukrainian reforms may be characterized with systemic imbalances and the existence of time lags between the implementation of the necessary innovations, which increases social tensions in the reform process. Political elites may also constrain reform that reduces the potential effect of the introduction of new rules. This problem is not unique to Ukraine but also for other countries in transition. Therefore, the introduction of new rules and the fight against non-market institutions interaction must take place simultaneously, rather than sequentially. Lack of public opinion unity on the direction of changes aggravates processes of reform and may lead to its formalization in the pursuit of expanding the electorate base.

As a consequence, here come two problems: the problem of the citizens’ attitude to European integration and the problem of resistance to changes.

Formation of public opinion as for European integration is being made through the media (controlled by interest groups), which has given rise to myths and stereotypes about the EU-Ukraine Association Agreement [7]. The objective of these myths spreading is, on the one hand, to create overvalued expectations of European integration supporters and, on the other hand, undervalued expectations – from the supporters of joining/strengthening integration with Russia.

Unfortunately, these manipulations have a mass character and are easily incorporated into society in terms of common lack of knowledge of the AA text.

Results of a survey on the attitude of the respondents to the European integration of Ukraine were represented by IFAK Institut GmbH & Co. KG, Deutsche Welle Project (Germany) in 2014. It showed that half of the population of

¹ An example of this principle violation is the discrepancy between the European rules adapted and applied in terms of quite successful formal implementation, which remains a major problem not only for the third countries, but also for some EU Member States (Lavenex and Schimmelfennig 2009).

² Ranging from 70 to 200 USD a month at the current exchange rate.

the central and western regions were (too) optimistic about Ukraine's accession to the EU in the next 5 years, while 1/4 of the eastern regions population believed that Ukraine should not become a member of the EU [14] (Fig. 1).

The main objective of the EU, according to the Ukrainians' opinion, is to support economic growth (49 % of respondents), 62 % of the Ukrainians support this goal. One third of respondents (32 %) believe that the objective of the EU is to strengthen democracy and freedom of speech. The development of democratic values becomes more and more important for the Ukrainian citizens, as personal support for such goal has increased significantly over the year from 18 to 39 % (see The results of the monitoring research "DW-TREND", Ukraine 2014) (Fig. 2).

The results of the above survey confirm the fact that people make decisions about the future of their country in conditions of information asymmetry about the terms of the AA and the upcoming changes in the course of reforms.

³ The survey was not conducted in the Donetsk and Lugansk regions in connection with military operations, otherwise the data would be much greater.

In this regard, there is an acute need for an independent and non-profit organizations that would conduct educational activity, raise the level of literacy of the population about their rights and freedoms, the foundations of a market economy, polity and public governance, as well as provide politically biased coverage of all matters relating to the AA and the process of European integration of Ukraine.

Thus, the Europeanization of Ukraine and implementation of the AA are not totally supported by the Ukrainian citizens. Today's public confrontation over Ukraine's foreign policy actually displays the confrontation of political and economic elites whose interests are dependent either on the strengthening of trade and economic relations with the EU, or with Russia. Political instability and geographically different directions of large capital owners' interests hamper the adaptation of legislation and the conditions for further European integration.

One of the measures that may be applied to overcome political resistance to changes is the regulatory competition [3, p. 52-55]. However, Ukraine has no such possibility at the stage of joining a free trade area with the EU. At the

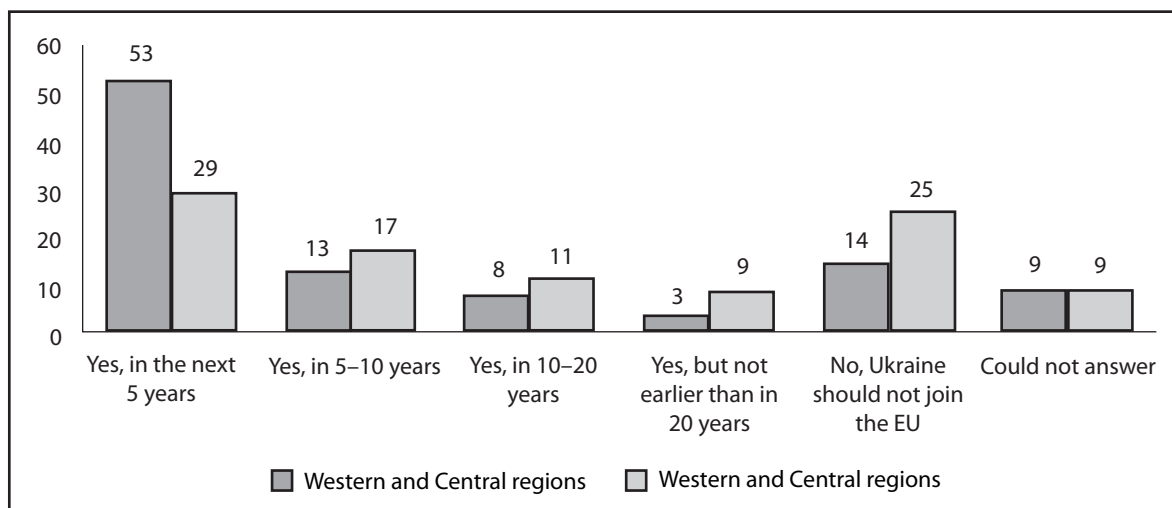


Fig. 1. Prospects of European integration in the perception of Ukrainians (by region), December 2014, in % of all respondents³

Source: calculated and built by [14].

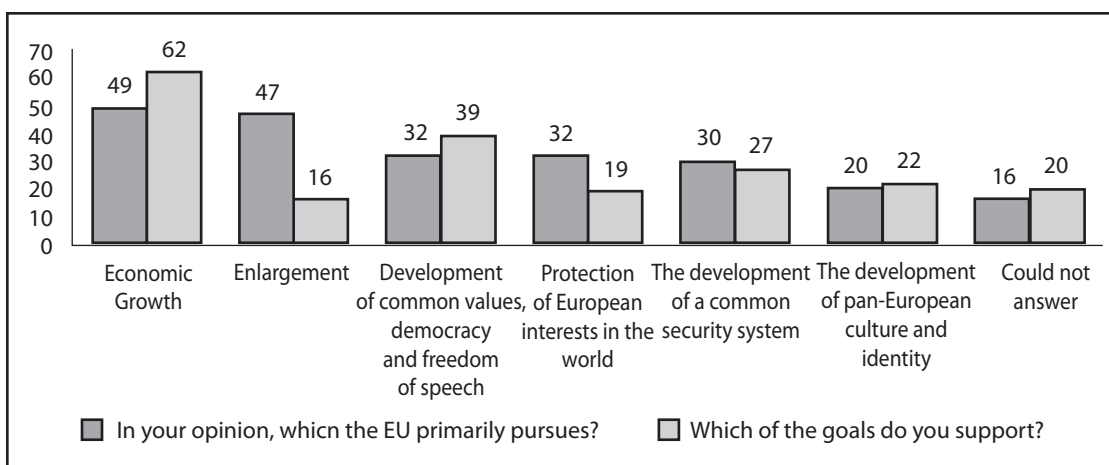


Fig. 2. The objectives of the EU – according to opinion of the Ukrainians, in % of all respondents

Source: calculated and built by [14].

same time in terms of a high degree of uncertainty in foreign policy there are no alternatives to domestic regulation and governance for Ukraine. This pursues to looking for other approaches, one of which is offered in the theory of group interests in financial development [11]. It states that the political groups may resist development because it generates (real, not nominal) competition, which prevents high monopoly profits. The possibility to interests lobby in terms of close relationship between business and government becomes a key source of generating income. But resistance of political groups to institutional changes should weaken under the influence of external competition. Therefore, this factor may become a key lever for institutional and economic development in Ukraine.

Turning to the economic aspects of the Europeanization of Ukraine, it is obvious that different initial macroeconomic conditions will put the Ukrainian companies in unequal conditions with the European ones as they enter the Ukrainian market and will create additional risks [13], such as:

- ✦ *at the government level* – narrowing sovereignty in matters of economic and monetary policy; import of crises, increased dependence on international financial institutions; discrepancy with high European quality standards;
- ✦ *at the company level* – increased competition and risks of acquisitions; short-term displacement of Ukrainian companies by more powerful international ones in some areas due to the competitive advantages of the latter.

However, competition is the basic market mechanism that encourages the improvement of services quality for consumers, and the access of more competitive foreign economic agents to market encourages real competition. While increased competition through market entry of foreign companies creates additional pressure on domestic ones, the latter receive incentive to improve performance, service quality and get access to foreign technologies [4]. Domestic companies will have to adapt and evolve in order to survive in the market, particularly through consolidation. This problem is not unique to Ukraine but also for the less economically developed EU member states, which may be seen from their resisting the “Europeanization pressure” [8, p. 809] and entering the national markets of more powerful foreign competitors.

CONCLUSIONS

Despite the difference in interests of political and business groups, which is reflected in overvalued or undervalued expectations of population regarding European integration, implementing the AA provisions and consequent intensification of relations between Ukraine and the EU may provide external stimulus to more effective public policy reform and institutional change, increasing the efficiency of domestic companies and quality standards of services. But the success of future adaptation of Ukrainian legislation to the EU law depends, on the one hand, on completion of the transition to a market economy and functioning of market

institutions, on the other hand, on citizens’ awareness of the changes that are taking place. ■

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