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## **Will ukraine leave the cis? For its economy which is more beneficial, cis or eu?**

**Kalit soʻzlar:** MDH, mustaqil davlatlar hamdoʻstligi kengashi sessiyasi, tovar ayirboshlash, ikki tomonlama muzokara, ESH(Erkin Savdo Hududi), Ukraina-Yel tadbirlar rejasi, likvidlilik, ishonchlilik, vizasiz sayohat, Chengen hududi.

**Key words:** CIS, Session of Commonwealth of Independent States Council, turnover, Bilateral negotiations, FTA (Free Trade Area), Ukraine-EU Action Plan, liquidity, credibility, visa-free travel, Schengen zone,

**Ключевые слова:** СНГ, сессия Совета независимых государств, оборот, двусторонние переговоры, зона свободной торговли, план действий Украины и Европейского союза, ликвидность, правдоподобие, безвизовый въезд, Шенгенская зона.

**Annotatsiya:** Maqolada bugungi kunda keng muhokama qilinayotgan mavzulardan biri Ukrainaning MDH tarkibidan chiqish boʻyicha amalga oshirayotgan ishlari, bunga nimalar sabab boʻlayotgani, Ukrainaning MDHdan chiqishi qanday yoʻlda amalga oshirilishi, ular oʻrtasdagi shartnomalar va nima uchun Ukraina tashkilotdan butunlay chiqib keta olmasligi borasidagi masalalar yoritilgan. Maqola soʻngida xulosa qilib MDHning barcha davlatlari yagona birlashma tashkil qilishlari va oʻz iqtisodiy salohiyatlaridan kelib chiqqan holda qarorlar qabul qilish kerakligi taklif etilgan.

**Annotation:** The article describes one of the widely discussed themes including the problems of what Ukraine is doing to withdraw from CIS, the reasons which have triggered off this decision, which way Ukraine will choose to leave the CIS, the contracts between them, and why Ukraine can not leave organization completely. At the end of the article it is suggested that CIS countries should establish an economic union and make decisions in accordance with their economic capacity.

**Аннотация:** Статья описывает один из широко обсуждаемые темы в том числе и проблемы, что Украина делает, чтобы выйти из СНГ, причины, которые вызвали у это решение, которое образом Украина будет выбрать, чтобы оставить СНГ, контрактов между ними, и почему Украина не могут оставлять организации полностью. В конце статьи это предположено, что страны СНГ должны установить экономического Союза и принимать решения в соответствии с их экономического потенциала.

It has been a dispute for a long time whether Ukraine will leave the CIS or not. In fact, since the foundation of the CIS Ukraine has never been an official member of the organization. According to CIS officials, Ukraine in recent months has been trying to provoke the organization to take the kind of action against Kyiv that could

be used to justify a harder break. But the CIS has refused to be drawn, forcing Kyiv to come up with its own post-membership arrangements.<sup>1</sup> In this article there are discussed some benefits which Ukraine has acquired from CIS and some reasons why the country can not leave the organization totally and the connections between the European Union and Ukraine.

In 1991, 11 former Soviet republics formed the CIS and shortly there after Georgia was forced to join, a decision it reversed after Vladimir Putin invaded that country in 2008. After a year Georgia officially withdrew from the CIS leaving 34 contracts with other countries of the organization in power.<sup>2</sup> With Ukraine’s departure, the CIS will be reduced to nine – Russia plus Belarus, Armenia, Azerbaijan, Moldova and the four Central Asian countries (except from Turkmenistan) . And it was Ukrainian President Kravchuk who was among the three leaders who signed the Belavezha Accords in December 1991. The Ukrainian Supreme Council ratified them unlike the CIS charter, that’s why Ukraine isn’t an official CIS member. But it ripped benefits from the membership. Some members of the CIS are less than full-fledged allies of Moscow either because they are trying to balance between East and West as Belarus, Azerbaijan and Kazakhstan have been doing or because they have been going their own way like Turkmenistan and Uzbekistan.<sup>3</sup>

Ukraine has already been on the way out of the CIS since Russia’s invasion and annexation of Crimea in 2014. It has refused to pay its membership dues or to take part official meetings. But they managed to play in both sides until 2014. In March, after the Crimean referendum, the National Security and Defense Council decided to terminate the Ukrainian presidency in the CIS, while National Security and Defense Council (NSDC) Secretary Parubiy said that the country began the withdrawal from the organization. In 2015, the Ukrainian foreign ministry said that the CIS does not serve Ukrainian interests, although it still uses the free trade arrangements among members. In November 2016, the bill was submitted to the Verkhovna Rada.<sup>4</sup>

At the Session of Commonwealth of Independent States Council of the Heads of State, October 13, 2014, the former President of the Republic of Uzbekistan, Islam Karimov, emphasized on the issue of Ukraine:

“As far as the resolution of the Ukrainian crisis is concerned, we are convinced that only a denunciation of the application of forceful methods as a way to address all the emerging issues, only the use of political means built on the fundamental norms of international law and the UN Charter, only an unconditional adherence by the sides – not in words, but in deeds – to the Minsk Accords on ceasefire and truce can shape an environment essential for negotiations to reach peace in Ukraine.

Unfortunately, serious political issues that were envisaged and which cannot be managed without have simply not been embarked on in the negotiating processes. There is another issue that is directly related to the current meeting of CIS heads of

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<sup>1</sup> <http://windowoneurasia2.blogspot.com>

<sup>2</sup> [www.britannica.com](http://www.britannica.com)

<sup>3</sup> [www.EuromaidanPress.com](http://www.EuromaidanPress.com)

<sup>4</sup> [www.vesti.ru](http://www.vesti.ru)

state. Literally two days ago, the hot news of the hour was the information that the President of Ukraine P.Poroshenko would attend our session. However, yesterday evening it became clear that Mr. Poroshenko would not come to the meeting and that his plans underwent modification. In our view, such a decision is hard to agree with. It has been already a year since the problem of confrontation in Ukraine turned into one of the most pressing and urgent issues of the contemporary times that is discussed around the world, including the post-Soviet space. By the way, by means of television, people even in the remotest of our districts and kishlaks are pretty informed about the developments in Ukraine. In circumstances as such, there are no indifferent people, and practically all are enough knowledgeable of what has happened and what triggered everything. Everyone has been eager to know when and how this absolutely unnatural confrontation between the conflicting parties will end, a clash that should cease as soon as possible.

Nonetheless, one could have made use of today’s opportunity to attend and take part in the session of the CIS summit meeting. By the way, Ukraine is still a member of the Commonwealth. Emerging impression is that Mr. Poroshenko’s stance has evidently been dividing into two and that he is still unable to decide whether quitting the CIS is to his good or bad. Crucially, had he spoken here today, we would have been offered a greater clarity with regard to the resolution of the Ukrainian crisis. Yet, unfortunate as it is, that is not the case.”<sup>5</sup>

April 13, 2018, at the Kiev security forum, Petro Poroshenko, Ukraine’s president, demanded to close the representation to the CIS and check if the contracts comply with national interests. He also demanded the government to prepare proposals to officially withdraw from the CIS constituent bodies and to close the Ukrainian representation to the relevant institutions in Minsk<sup>6</sup>.

Ukraine, the largest and most important non-Russian member, is going to withdraw from CIS following the Russian invasion had been signaled by the country’s foreign ministry.

Nonetheless, the actual movements have not been put into action because of following reasons:

- First, the issue of leaving the CIS had become entangled with that of denouncing the Russian-Ukrainian Friendship Treaty of 1997 in which Moscow had acknowledged Kyiv’s control over Crimea and that thus in part still serves Ukraine’s interests.

- Second, many in Kyiv and the West have been worried about how Moscow might react if Ukraine took this formal step and counseled against it arguing that Ukraine hasn’t really been part of the organization for some time and that withdrawing won’t really change very much except infuriate Moscow and thus make the situation worse.

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<sup>5</sup> [www.uzA.uz](http://www.uzA.uz)

<sup>6</sup> [www.vesti.ru](http://www.vesti.ru)

- And third, the foreign ministry earlier made clear that it was waiting for Poroshenko to act. He now has, and consequently, at a time when most people are focusing on Syria and Western sanctions, Ukraine is now ready to take this step.<sup>7</sup>

At present Kyiv is following the Georgian way of leaving. It is planning to quit the organization but remain a participant in certain agreement which were obligatory for members of the CIS. That is what Georgia has done in the case of 34 agreements on a wide variety of issues, including railway operations.

If a political scenario plays out, Ukraine will slam out, preserving all the contracts concluded within the CIS. The second scenario is more painful. It is about denouncing the agreements, for example, those on the recognition of diplomas, retirement benefits while moving country and medical aid.

Many of the agreements Moscow describes as CIS accords in fact are typical of relations among countries in various regions, including such things as mutual recognition of diplomas and rail transportation. Moreover, the CIS accounts for 16% of Ukraine’s exports. Kiev will be deprived of many rights and opportunities.

The head of the Savior of Ukraine Committee, Nikolai Azarov, says that heeding Ukraine’s shattered economy, it loses the partners with whom it has worked for years. The turnover which accounts for \$12 billion with the CIS countries is a very large amount that Ukraine won’t be able to make up for elsewhere.<sup>8</sup>

According to Sergey Lavrov, Russian Minister of Foreign Affairs, all the colleagues of Russia showed an interest in Ukraine fully cooperating with its neighbors and Kiev, in its turn, is well aware of this position, but it seems to be busy doing what they deem more important than developing its own economy and social sphere and promoting the demands of its citizens.<sup>9</sup>

#### **Ukraine – EU relations.**

Bilateral negotiations between the EU and Ukraine on the establishment of Deep and Comprehensive Free Trade Area were launched in February 2008, immediately after Ukraine concluded the WTO accession talks. The negotiated FTA will be the first of a new generation of deep and comprehensive free trade agreements, covering all trade-related areas including the dispute settlement mechanism.

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<sup>7</sup> [www.EuromaidanPress.com](http://www.EuromaidanPress.com)

<sup>8</sup> [www.вести.ru](http://www.вести.ru)

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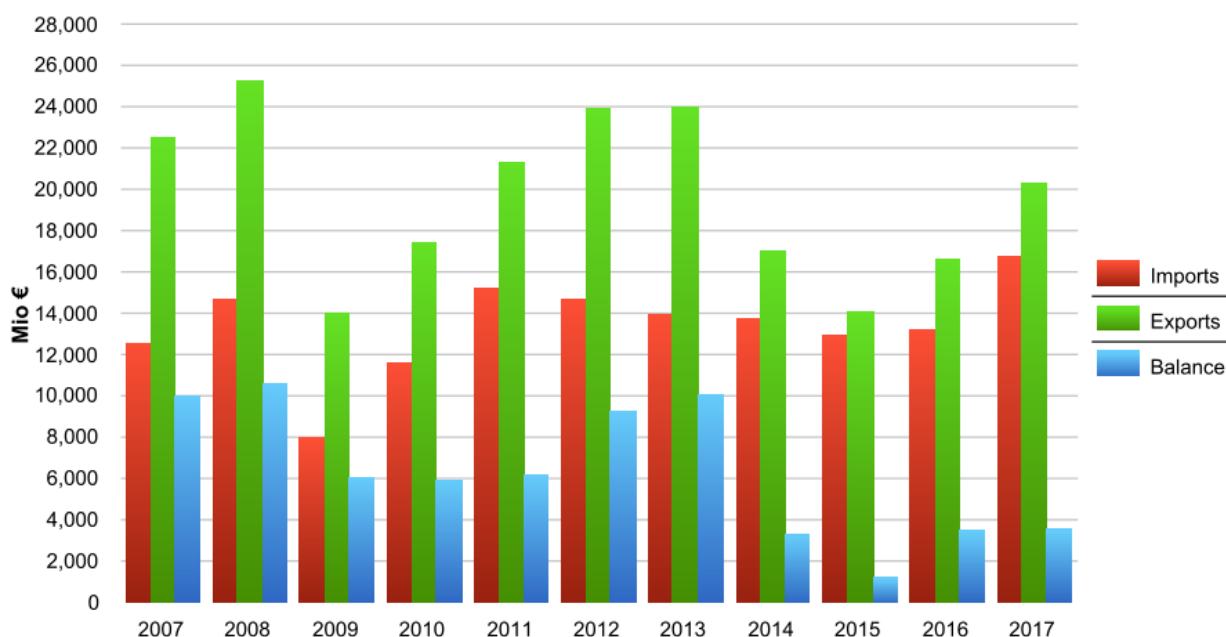


Figure 1. Total goods: EU Trade flows and balance, annual data 2007 – 2017 (Mio €)<sup>10</sup>

Trade in goods between EU and Ukraine by imports had not changed dramatically until 2017 maintaining average 13,343 billion euro annually. But trade by export had been rather uneven. Export between them peaked in 2008 (25,159 billion euro) following sharp decrease in 2009 (13,991 billion euro). The biggest and the least difference in balance occurred in 2008 and 2015 with 10,517 and 1,190 billion euros.

Ukrainian intentions to achieve greater liberalization of capital flows were defined in base document – Ukraine-EU Action Plan. Among other things, the document states the necessity of legislation approximation and opening of both Ukrainian and EC economies so as to stimulate investment and economic growth. Investment climate was expected to be improved thanks to greater transparency of business conditions and administrative procedures. Ukraine also committed to ensure free capital flows related to FDI and other investment, protection or, in case of company liquidation, repatriation of any investment or profits from its use. Below there are given the benefits and costs of capital movement liberalization which have been brought to Ukraine by FTA agreement.<sup>11</sup>

	Costs	Benefits
<b>State and economy in whole</b>	Excessive vulnerability to external shocks in case of adverse capital movements. Risk of outflows overpassing inflows in case of economical	Increased liquidity, lower capital costs and stimulation of investment resulting in economic growth. Increased credibility to the

<sup>10</sup> Source: Eurostat Comext - Statistical regime 4.

Mio-modular input/output

<sup>11</sup> Igor Burakovskiy, Kateryna Kutsenko, Hanna Chukhai: “Costs and Benefits of FTA between Ukraine and the European Union” Kyiv.: 2010. pp 57-58.

	<p>feebleness.                  Loss of independent economic policy, in case international financial institutions set different policy goals in exchange for financial help.                  Greater discrepancies between poor and rich countries.                  Complicating of policy actions and deepening of problems associated with weak currencies.                  Increase in adverse selection problems in case of underdeveloped financial system of investment importing countries.                  Problems with fund raising.                  Reduced possibilities for monetary policy.</p>	<p>country.                  Fostering financial sector reforms.                  Financial market deepening.                  Portfolio diversification resulting in higher risk-adjusted rates of return.                  Better external trade development.                  Wider sources to cover budget deficit (e.g. governments and private companies could borrow at Euro-markets).</p>
<b>Companies</b>	<p>Reduction of revenues of incumbent firms and increased bankruptcies of small firms due to increased competition.                  Inadequate credit allocation if regulation of domestic financial markets is inefficient or trade barriers exist.                  Excessive risk taking by banks due to the lack of expertise to manage credit risks and rapid lending expansion.</p>	<p>Increased competition.                  Channeling of financial funds to the most efficient companies due to improved accountability standards and disclosure requirements inherited from international firms.                  Know how diffusion associated with FDI.</p>
<b>Social costs</b>	<p>Increase in gap between wages of skilled and unskilled workers in industrialized countries.                  Short-run disruptions e.g. job losses and income declines, disproportionately hitting the poorest people.</p>	<p>Increased lending to households due to increased supply of capital.                  Reduction of poverty level and use of child labor thanks to easier access to credit.                  Consumption smoothing.</p>

Ukraine’s relations with EU have been rather improved as the visa-free was launched in 2017. Ukraine did everything to get this privilege and waited EU’s last step for three years. According to WSJ (*Wall Street Journal*) the ambassadors from the EU’s 28 nations failed to gather enough support to back the move toward the visa



lift. Several countries slowed down the approval as Germany was concerned about Georgian gangs and France was worried about security vulnerabilities.<sup>12</sup>

On May 11, 2017 the European Union and European Council representatives approved the request of Ukraine for visa-free travel. They signed the document in Strasbourg, which now means that Ukrainians can travel to EU Member States without a visa for short stays.<sup>13</sup>

This has been deemed as a landmark in the history of Ukraine since the approval was long awaited. Initially, it was expected that the EU would approve visa-free travel for both Georgia and Ukraine at the same time, but for some reasons Georgia was granted visa free travel on March 28, 2017. With the approval for Ukraine signed on May 11, 2017 Ukrainian citizens gained a chance that they could travel to EU Member states without a visa starting from June 11. Ukrainians will no longer be required visas to travel to most EU countries for tourism, family visits and business reasons (except from working) for a period of 90 days.

They are also allowed to visit the four countries which are not part of the Schengen zone<sup>14</sup> such as Norway, Iceland, Liechtenstein, and Switzerland. However, since the United Kingdom and Ireland have different policies, Ukrainian citizens will have to undergo different procedures in order to qualify for short visits in these countries.

If we generalize, it is clear that many attempts have been done by Ukraine in order to get a EU membership. Although Ukraine aims to eventually joint the EU, the facilitation of the convergence towards to the European rules and practices should be carefully staged. Actually, Ukraine is currently not ready to be a member of EU for the following reasons. There are a number of issues that should be taken into account:

1. Ukraine’s increasing corruption and lagging economy require, at least, a decade to improve.

2. European politics have little interest to expand the union further due to rising population and infighting within the EU (eg. UK, Poland, Hungary)

3. If the conflict stabilizes and that a lasting deal is gained, there is no chance the EU integrates with a country at war.

4. European voters may fear Ukrainian workers’ invasion that would threaten their jobs. Ukraine has a population of over 45 million people and it is more than half of EU countries’ population.<sup>15</sup>

From the facts above nobody doubts that none of the CIS members can fit fully to the standards of EU. We saw this as an example of Ukraine. Despite of the privileges given by EU the trade relations between Ukraine and EU are very slow because Ukraine’s economy is not yet ready to provide the EU markets with large volume of competitive products. Every country comes to the market where its products are demanded. Particularly in EU market it is hard to respond to the

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<sup>12</sup> [www.shengenvisa.info.com](http://www.shengenvisa.info.com)

<sup>13</sup> [www.shengenvisa.info.com](http://www.shengenvisa.info.com)

<sup>14</sup> Schengen zone – named after “the Schengen Agreement” signifies a zone where 26 different European countries acknowledged the abolishment of their internal borders with other member nations and outside, goods, services and capital, in harmony with common rules for controlling external borders.

<sup>15</sup> <https://www.rt.com>

standards of their developed economy. From this point, I think the Former Union countries should cooperate mutually and that is the only way to accelerate their poor economy. At the being time the CIS countries need an economic union in order to develop their economy gradually and make economical decisions in accordance with their economic capacity. But in which form will the Union be shaped? Nowadays every member of the CIS has a stable relations with Russian Federation, but among other members of the organization there is not a durable connections. For example, the relations between Uzbekistan and Russia are strongly built. Russia’s relations with Moldova are also good. But there are not tight relations between Uzbekistan and Moldova. Generally speaking, for the integrated countries it is not healthy to be in a good relations with only a giant county in the group. Because in economy once there will appear imbalance and then every single country will have to seek for new partners. This can be described in one simple example, is it better to sell your product in a market where sole consumer exists or many? Every country must have expanded economical relations and a number of partners so that it can continue its existence in a competitive market. Diversification and competition always serve for the benefits of society.

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