

A stylized map of Ukraine composed of a grid of dots. The map is primarily grey, with several red dots highlighting specific regions or points of interest. The title text is overlaid on the right side of the map.

Social consequences of European Integration of Ukraine

The labour market

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May 2014

- After signing the Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, the Ukrainian labour market will gain new impetus for its development: adapting its labour legislation to EU standards, improving the investment climate, increasing labour productivity and the growth of national labour force competitiveness.
- However, DCFTA implementation with the EU will significantly challenge the Ukrainian labour market as integrating into a single European Economic Area could mean suffering economic and social losses. Social risks are likely to occur during the adaptation period, especially at its short-term stage.
- The challenges can be overcome only by taking preventive and proactive measures for labour market regulation aimed at protecting national producers and employees, stimulating their competitiveness, strengthening the role of governmental and non-governmental organisations in securing national priorities and ensuring their compliance with international standards.

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INTRODUCTION

Within Ukrainian society there are two opinions on globalization: an optimistic and a pessimistic one. From the point of view of the former, economic integration continues worldwide, a new world order is formed and social progress speeds up. From the point of view of the latter, globalization leads to conflict escalation between countries with different levels of economic development.

The choice of Ukraine for the path of European integration is a part of this globalization process. According to the research conducted by Razumkov Centre from 29 September to 4 October 2011, 51,2% of Ukrainians have positive attitudes toward the association with the EU, 30,3% have negative attitudes and 18,6% were undecided. In 2002, this issue was characterised by the following figures correspondingly: 65,1%; 12,9%; 22,0%. As we can see, whilst most of the respondents approve of integrating with Europe, the number of people with negative attitudes increased by almost 2.5 times.¹

In such circumstances it is necessary to describe the nature of Ukrainian economic integration achieved by the Deep and Comprehensive Free Trade Agreement (DCFTA) complemented by further association with EU member states.

The processes of the DCFTA implementation influence the functioning of all markets: goods and services, capital and labour. European integration changes give considerable impetus to the labour market. Their main vectors will include the creation of new jobs in export-oriented economy sectors, productivity increase due to the import of advanced technology products, bringing labour regulations, standards and guarantees in compliance with international requirements and introducing new legal and administrative culture in relations between the labour market subjects. Social risks and threats caused by the clash of opposite values and adaptation difficulties are easily foreseeable as well. It is the labour market that will either improve or decline from these significant changes.

Therefore, the aim of this research is to analyse and evaluate possible benefits and losses, advantages and disadvantages of the Ukrainian labour market in the context of this deeper form of free trade area.

The European integration of Ukraine should be implemented step-by-step. The benefits and losses of European integration will be distributed unevenly within these periods of time. At the initial stage the losses are more likely to outweigh the gains, but later positive and negative effects will be more balanced. In the long-term perspective, taking into account the objective peculiarities of world economic development, it is possible to forecast economic and social benefits from European labour market development as a single entity.

1. WHAT ARE THE PECULIARITIES OF THE CURRENT SITUATION ON THE UKRAINIAN LABOUR MARKET?

The Ukrainian labour market is characterised by a growing labour force supply whilst the demand is decreasing and there is an insignificant increase in demand for high-skilled labour.

Between 2009 and 2011 the labour market was characterised by the following features and trends:

- decline in economic activity of the population as a result of emigration processes and reduction of population growth;
- restructuring of enterprise activity, state sector shrinkage, growth of the service sector;
- expansion of informal employment;
- insufficient investment activity and outdated main means of production;
- subsidised labour in most of the economic sectors;
- raise of long-term unemployment;
- high levels of private casual jobs and manual labour.

The end of the crisis was also marked by positive changes. Food-processing and household chemical industries are increasing their staff as well as opening new branches and hiring employees (for

1. Is it necessary for Ukraine to enter the EU? (dynamics, 2002-2011). Available at: http://www.uceps.org/ukr/poll.php?poll_id=387



Table 1. Dynamics of economic and social development index of Ukraine²

Index	2000	2009	2010	2011	2009-2011
Employed, thousands	20175	20192	20266	20324	132
Unemployed, thousands	2656	1959	1786	1733	-226
Economically active population, thousands	22831	22150	22051	22057	-93
GDP in prices of 2000 (millions, hryvnia)	170070	249609	259979	273277	23668
GDP in actual prices (millions, hryvnia)	170070	913345	1082569	1316600	403255
Average salary (hryvnia)	230	1906	2239	2633	727

example, the new production capacity of Nestle Company) and there is improvement in construction materials production. However, export-oriented sectors are experiencing difficulties in the labour market, namely: metallurgy, machine-building, chemical and oil-processing industries. The debt to GDP ratio that reached 20 billion hryvnias does not allow these sectors to come out of the crisis.

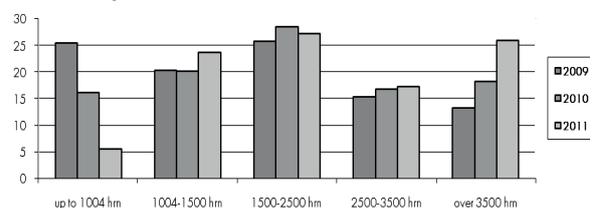
Which key trends characterise employment in the Ukrainian economy?

1) An increase in the actual employment rate of the population followed by a substantial productivity lag compared to other European countries. Table 1 demonstrates that during the last three years there was a certain rise in employment rate. Also after falling by 14% in 2009, GDP growth accelerated in 2011 by 5,2% up from 4,2% in 2010. At the same time, GDP changes are predominantly explained by export fluctuations rather than real labour productivity growth achieved due to new technologies.

According to the labour productivity index calculated by the International Monetary Fund (IMF) and the International Labour Organisation (ILO) for 85 countries, Ukraine is in 72nd place, though this

figure doubled within the last decade. The country significantly lags behind its European partners with its labour productivity index three times lower than in Slovakia, four times lower than in Germany and five times lower than in France. In order to catch up with its neighbouring partner Poland, it is necessary to increase the labour productivity index by 2,6 times. However, inadequate labour conditions, an absence of new manufacturing technologies, insufficient levels of labour force qualification, and the prevalence of goods from low and medium-low technologies in Ukrainian industries create obstacles to achieving that.

Figure 1. Distribution of employees according to salary level in December 2009-2011, %



2) Reduction in conventional employment. The number of full-time workers has decreased as a result of the quick development of unconventional forms of employment (work at home, online, distance and temporary work).

The continuous shrinking of the number of regular employees supports this tendency. For example,

2. Figures from the State Statistics Service of Ukraine– Available at: <http://www.ukrstat.gov.ua>



in 2011 they numbered 10556 thousand people which is almost 100 thousand less than in 2009.

3) Deformalisation of employment. The non-state sector develops as a result of the redistribution of the population in informal work rather than because of the creation of new small and medium size enterprises.

According to experts' estimates, 35% of Ukrainians' income is undeclared, especially in construction work, trade, hotel and restaurant businesses and the agricultural sector. The share of informally employed people in these economic sectors fluctuates between 30% and 60%. The proportion of shadow economy labour constitutes almost 60 % of total GDP.³

The result of labour force observations in Ukraine demonstrated that the share of informal employment in 2000 amounted to 14,8%, while in 2008 – 21,8%, and in 2010 – 22,9%. The portion of informally employed slightly rose from 4649,2 thousand people in 2010 to 4704,9 thousand in 2011.

4) The unemployment level has been relatively stable. Between 2009 and 2011 the unemployment level has decreased from 8,8% to 7,9% with respect to the economically active population and from 9,6 % to 8,6 % with respect to the working-age population. Registered unemployment levels amounted to 2,5% and 1,8% respectively. The highest level of unemployment is present in the sectors with traditionally low employment in so-called "public" production, but employment is higher in personal household plots and private households.

The share of registered unemployed skilled specialists is now decreasing, which is a positive trend. However, there is a threatening tendency of increase in long-term unemployment, youth unemployment, as well as unemployment of people over 50 and other socially vulnerable groups in the labour market. There is an apparent employment and revenue growth in new sectors of the economy: IT

services, tourism, pharmaceutical and agricultural industries.

What is the situation regarding the remuneration of labour?

As shown in figure 1, over the past three years there have been some positive changes in the structure of labour remuneration. In 2011, as well as in 2009 and 2010, the salaries of the largest share of employees (27,3%) fluctuated between 1500 and 2500 hrn. The share of employees earning less than 1004 hrn has dramatically fallen (to 5,6%) and the share of those earning more than 3500 hrn has conversely increased (to 26,0%).

Since 2008, those working in the aviation industry have received the highest average monthly salary. During this period salaries more than doubled in this sector from 4061 hrn in 2008 to 8742 hrn in 2011. Higher average monthly salary levels are also observed in finance, water transportation services, real estate sector, leasehold, engineering and business consulting. Those involved in fishing, agriculture, education, health and social care earn considerably less than the average wage in the country (1448 hrn in 2008 and 2081 hrn in 2011). As we can see, the salary distribution in different sectors is extremely uneven.

In general the pace of salary increase amounted to 9,9 times in the first decade, while labour productivity – 7,8 times. The inflation index rose by 2,7 times in this period. The official statistics do not take into account enterprises' arrears in salaries (1 billion hrn at the beginning of 2012), shadow business, and salaries of statistically small enterprises.

Thus the remuneration of labour has the following stable trends:

- salaries lower than the national average;
- huge income gap between high and low income groups;
- arrears in salaries;
- overqualified people and underpaid jobs;
- significant regional and sector salary differentiation;

3. Social and economic situation in Ukraine: consequences for the nation and state: national report/ Editor Geys V.M. [et al] – K. :Vernadskyi National Library of Ukraine, 2009. – pp. 687. – Available at: <http://www.nbuv.gov.ua/books/2009>.



- prevalence of shadow schemes for labour remuneration;
- scarcity of market stimulation of labour;
- presence of centrally established limits.

Are social and labour relations satisfactory in Ukraine?

The system of social partnership has features of a crisis:

- absence of proper social protection of workers;
- prevalence of informal procedures and practices for control;
- insufficient self-identification of the subjects of social and labour relations;
- little attention to the needs and motivation of workers;
- inadequate investment in workers' professional development;
- mistrust of workers toward the powers of public authorities and social partnership and disappointment with trade unions.⁴

To what extent are workers socially protected?

One of the features of the aforementioned trends is the insufficient social protection of labour.

To its quantitative characteristics belongs, first of all, low minimum wage. Although it is continuously being improved, it dramatically lags behind the wages of other European countries (Table 2).

Second, unemployment benefits are lower than a living wage. In 2012 they amounted to 825 hrn, which is lower than the statutory minimum wage of 1094 hrn and lower than the living wage which on 1 January 2012 amounted to 822 hrn, but from 1 April 2012 rose to 838 hrn (a minimum wage for able-bodied workers for this period is 1037 hrn).

4. The results of the author's work on a planned topic "Development of social and labour sphere: priorities, determinants, and vectors of modernisation" The National Academy of Sciences of Ukraine.

Table 2. The minimum wage in the EU countries and Ukraine, 2007-2011, in euro⁵

Countries	2007	2008	2009	2010	2011
Bulgaria	92	112	122	123	123
Estonia	230	278	278	278	278
Latvia	172	230	254	254	282
Lithuania	174	232	232	232	232
Poland	246	313	307	321	349
Romania	114	138	149	142	157
Slovenia	522	538	589	597	748
Check Republic	288	300	298	302	319
Ukraine	60	50	74	92	95

The qualitative features of unsatisfactory social protection include the numerous obstacles workers face with regard to protecting their employment rights such as timely payment of their wages, decent working conditions, retirement provision and access to other social benefits.⁶

We have detected the following paradoxical features of the labour market models:

- employment and labour remuneration issues are dealt with differently in theory than in practice;
- labour market policy is reactive rather than proactive;
- social aspects of labour market policy dominate over economic aspects;
- labour market develops in isolation from housing market, credit, investment, goods and services;
- state controls and monitors the profitability of employers, but not their payments to workers;
- the legislation is actively developed but not implemented;
- labour market flexibility is substituted by flexibility in law enforcement.

5. Available at: <http://epp.eurostat.ec.europa.eu/>

6. The State Statistics Service of Ukraine– Available at: <http://www.ukrstat.gov.ua>



2. WHICH SOCIAL AND ECONOMIC POLICY MEASURES HAVE BEEN TAKEN ON THE LABOUR MARKET?

Ukraine has created strong legislation for the development of social and labour relations as well as the labour market. Namely Ukrainian laws such as: "On employment of the population" (reviewed in 2012), "On compulsory insurance of the unemployed by the state", "On remuneration of labour", "On collective agreements and contracts", "On social dialogue", "On professional staff development", etc. The reform of the law code on labour that will partially combine laws and acts and will include new provisions regarding state and market regulation of labour is due to be completed soon.

According to the general course that is aimed at the establishment of a socially oriented market economy in Ukraine it is planned to facilitate freely chosen, full-time and productive employment.

Various types of employment have been legalised: private enterprise and individual business activity, family business, farming household, cooperatives and different types of partnerships. The employer's status has changed as well. Now he /she can be either a legal entity or a natural person (citizens who recruit employees for serving their individual needs, private entrepreneurs who have no legal entity). The possibilities of family labour legalisation are being considered as well (time spent on childcare, and care for the elderly and sick to be recognised as work experience). There is also a need to legalise home-based jobs, especially in sectors that are related to scientific and technological progress and are prototypes of "virtual labour relations". There are many changes in the employment conditions and types of recruitment, which are explained by the activity of intermediaries as well as various types of employment and civil contracts. New social and labour relations are formed in the market sector of the economy, namely leasing, outsourcing, and out staffing of the labour force.

There is no common understanding of the labour market status of those working in private households and the farming sector. The issues regarding the informal and unconventional jobs are not regu-

lated either. Certain types of labour relations are not regulated by the state, as the state usually controls only large enterprises with consolidated forms of ownership.

Until now, employment legislation has been aimed mostly at unemployment protection, but the main emphasis is not on the provision of employment guarantees, but on reduction of unemployment. Current labour legislation does not provide protection from discrimination at work in case the employer arbitrarily turns down the employee's application. Also, there is no mandatory requirement that would presuppose a written employment contract. Labour relations of the employees working abroad, foreigners and people without citizenship are not taken into account as well. The institutional feature of the Ukrainian model includes a close combination of strict regulations specified in legislation with the practice of informal agreements that enable people to avoid keeping to legal norms. Thus, flexibility of the Ukrainian labour market model is secured by the possibility to ignore the laws rather than by flexibility of regulations.

Legislative remedies such as timely revision of the minimum wage level, which significantly influences the financial situation of citizens (especially those with low-incomes), is being ignored. The number of illegally-dismissed employees is growing, the practice of untimely labour remuneration continues, and many employees have part-time jobs. Plenty of enterprises, especially privately owned ones, abuse and violate the labour legislation when dealing with labour relations.

Figurehead institutions and attributes of social partnership in most cases "implement" the decisions prepared by the executive power. Today there are 165 all-Ukrainian trade unions and communities of practice and 21 all-Ukrainian employers' associations functioning in Ukraine. However, the process of trade unions' institutionalisation is incomplete. They are to some extent dependent on the government or on entrepreneurs, which does not allow them to effectively protect the interests of employees. At the same time, there is an urgent need to strengthen their participation



in the regulation of social and labour relations, namely regarding the issues of labour remuneration and work conditions.

3. WHICH LABOUR MARKET CHANGES ARE EXPECTED TO COME DUE TO TRADE LIBERALISATION?

The consequences of signing the DCFTA between Ukraine and the EU for each single sector are dependent on many factors: First of all on the production structure of that sector and also on the prior level of its protection. Therefore, different measures in the field of economic policy will have a larger or smaller impact on different industries. Experts estimate that after establishing a free trade area between Ukraine and the EU, the quantity of industries with growing output will approximately equal the number of those with falling output.⁷

In 2011, the total volume of Ukrainian exports to the EU made up 26,3%, whilst imports were - 31,2% (in 2010 25,4% and 31,4% respectively). In 2011 Ukrainian exports to EU countries amounted to 17969,9 billion US dollars and increased by 37,7% compared to 2010, while imports totalled 25750,6 billion US dollars respectively with an increase of 34,8%. Negative balance was 7780,7 billion US dollars. Export-import coverage ratio was 0,70 (0,68 in 2010).⁸

In general, net exports have a positive impact on employment as it means more jobs in those export-oriented industries. However, the export structure is not progressive in Ukraine because the percentage of primary and intermediate products amounts to more than 50 %. Moreover, export orientation of the country may cause devastation in the domestic market.

Judging by the export structure, it can be expected that employment redistribution will favour primary, and partially secondary, sectors of the economy. The

DCFTA will be beneficial mainly for export-oriented industries. As the growth of import demand will require higher volumes of exports, which is the source of currency inflow and are necessary for the import purchasing. Also, the improvements in access to markets will be beneficial for export-oriented industries which encounter significant trade restrictions in foreign markets.

Trade liberalisation with the EU will lead the employment growth in the following sectors: metallurgy, food-processing, light industry, finance consultancy, service and IT industry. Foreign investors are interested in the tertiary sector development, because the time lag between capital investments and output is minimal, there is no extreme competition and the labour force has appropriate professional qualifications. According to the European Business Association, Ukraine is in the top 10 list of the world leaders in the IT industry with an annual growth of 30-40% throughout the past five years.

If Ukraine joins the Energy Community and continues to establish partnership relations with the EU in the future, it will have positive impacts on both energy sector development and on employment growth.

The implementation of the Deep and Comprehensive Free Trade Agreement will positively influence such sectors as agriculture, fishing and forest industries, textile and leather industries as well as the service sector. It is necessary to emphasise that currently a significant share of clothing industry products are supplied to the European market.

According to CEPS [Emerson, 2007] estimates, Ukraine will profit both from trade liberalisation and the liberalisation of capital movements. As a result of this, GDP will in the long term grow by approximately 10%. The capital cost can drop by 16,7% assuming low flexibility of interchange between labour and capital, and by 17,1% if there is high flexibility. At the same time, wages will rise by 8,9 – 9,7% in Ukraine. Overall, the liberalisation of capital movements will enable Ukrainian enterprises to lower their expenses as well as risk premiums, thus increasing the general welfare by

7. Estimate of expenses and profits after signing the Free Trade Agreement between Ukraine and the EU. – K.: K.I.S., – 2010. – pp. 96.

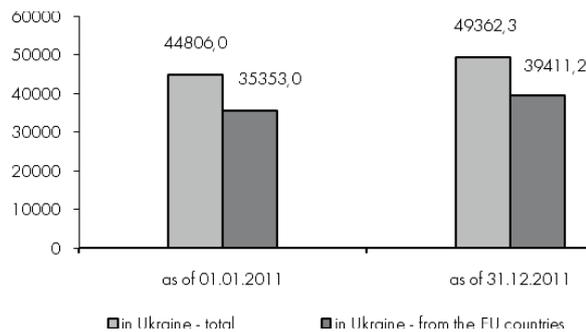
8. Figures from the State Statistics Service of Ukraine– Available at: <http://www.ukrstat.gov.ua>



4,5-4,8% in addition to the effects of trade.⁹

Research conducted by A. Christev, O. Kupets & H. Lehmann (2008) proved the positive impact of trade liberalisation with the EU on the movement of jobs.¹⁰

Figure 2. The annual dynamics of direct investments in Ukraine, million U.S. dollars



The volume of direct investments in the Ukrainian economy from the EU countries as of 31 December 2011 amounted to 39,4 billion U.S. dollars, which constitutes 79,8% of the total amount of investments in Ukraine. During one year, this figure rose by more than 4 billion U.S. dollars (figure 2)

Most EU investments concentrate on industrial enterprises (33,4%), financial institutions (33,1%), real estate companies, rent, engineering and business consultancy – 11,0% as well as trading companies, automobile repair, household goods and personal care products – 9,3%.

The main advantages of European integration for the Ukrainian labour market are:

- adapting Ukrainian labour legislation to EU standards;
- job development, both qualitative and quantitative;
- favourable investment climate and business environment;

- increase in labour productivity;
- effective relocation of human resources;
- growth of labour force competitiveness;

4. WHAT ARE THE POSSIBLE CONSEQUENCES OF THE EXPECTED CHANGES?

In the short run, we forecast actual continuation of trends which are already in place as well as escalation of the existing controversies. Apparent gaps in the level of productivity and competitiveness of labour, and the prevalence of old equipment and outdated technologies are some of the reasons for this. The main production assets are exhausted by 60%, which exceeds the critical level by 1,6 times. Also, labour conditions are not favourable. In 2011 the number of employees working in poor sanitary and hygienic conditions was 1283,3 thousand people. This figure decreased in the last three years only by 26,1 thousand people.

It is necessary to take into consideration obvious differences between Ukrainian and European requirements for the quality of products, sanitary, hygienic and phytosanitary norms. Because of these differences, large quantities of Ukrainian goods are uncompetitive. It is also worthwhile to mention the recent situation in Lithuania, where the EU prohibited battery cages for egg-laying hens. Modern cages are 750 square centimetres instead of 550.¹¹ Violation of the birds' "living conditions" can lead to a ban on exports and even bar the expansion of poultry farming.

After the domestic market has been opened, not all Ukrainian goods will be able to survive the competition. As a rule, goods produced by foreign invested enterprises are usually cheaper, and have better quality and service coverage area compared to the goods of domestic production. Some of the uncompetitive and unpromising businesses will fail which will cause labour market tensions.

Reduction of employment in agriculture and coal

9. Emerson, M. (2006). "The Prospects of Deep FTA between EU and Ukraine", CEPS Paperback Series (CEPS Paperback Series), №1, pp. 1-248.

10. A. Christev, O. Kupets & H. Lehmann. "Trade Liberalisation and Employment Effects in Ukraine", Comparative Economic Studies, 2008, 50.

11. Hens in depression and egg buyers under strain. <http://www.nedelia.lt>



industries correlates with the common patterns of structural change. Today 16% of the working population is involved in agriculture. This ratio is much higher than in developed countries. If facilities are modernised and new technologies are applied, the employment level will definitely decrease. It is also necessary to point out that during the last two years there have been some positive changes in the agricultural sector including revenue growth and implementation of international standards of financial accounting (their absence is the main obstacle for the attraction of direct foreign investments). It will create the foundation for revival of this sector in the future. At the same time, in the short run it is necessary to protect small producers while taking into account the traditional aspiration of Ukrainians to work on the land.

When considering the problems of the coal industry, it is vital to take into consideration the rapid development of alternative electrical energy sources. It is expected that the demand for coal will fall. Low mobility of the workers involved in the coal industry may cause problems for their professional retraining and future employment.

Energy and agricultural industries will become key sectors attracting investment by the European Bank for Reconstruction and Development (EBRD) in Ukraine in 2012-2014. In the next five years our country will be in second place by the volume of the EBRD investments (behind Russia where the EBRD is planning to invest 3 billion euros in 2012.)

The current situation regarding foreign direct investments demonstrates the conflict between short and long-term interests of companies, their capital and labour productivity growth. The point is that in order to provide a high level of capitalisation in the short term it is not necessary to achieve higher labour productivity. The market cost of the company increases as a result of mergers and acquisitions or after announcing them as ineffective enterprises. Labour productivity growth, however, is a crucial condition for capitalisation in the long term.

The reform of the government aid system, especially for industry, will also have certain social impacts. The decrease of government aid stimulates

reorganisation of industry with the aim to adapt to new competition rules. But the state must be able to support regions with high unemployment levels and the enterprises with clear and transparent restructuring programmes. A shift from financial aid for specific enterprises and sectors to regional and horizontal aid will take place in the government aid system. Some changes are expected in metallurgy, machine-building, transport and chemical industries. They will be caused by the redistribution of financial, material and human resources in the economy. In order to reduce the losses of the food-processing industry in Ukraine it is crucial to achieve a decrease in the asymmetry of customs duties.

Consequence estimation of the association between Ukraine and the EU should include the data on professional training and retraining quality, as there is a risk of their incompliance with structural changes in the economy. It is worthwhile to pay attention to the existing imbalance between the level and quality of education and the labour market demands, which occurs despite the positive trends in education reform in Ukraine.

Because of the current demographic situation, the number of university graduates during 2011-2016 will continuously decrease, which will gradually lead to new labour market tensions.

It is possible to predict that in the short- to medium-term perspective, the asymmetry of the labour market will widen therefore employers will benefit from European integration rather than employees.

In the medium- to long-term perspective, a certain balance will be achieved in the labour market. Positive impacts will gradually dominate. According to Ukrainian and foreign expert estimates, DCFTA implementation with the EU will in the medium-term perspective enable Ukraine to increase the quality of life by 4,3% compared to the current rate, and in the long-term perspective this figure will increase by 12%.

The forecast by the Quantitative Assessment of Ukraine's Regional Integration Options: Veronika Movchan, Ricardo Giucci¹² (2011) is optimistic as



well. According to it, the wages of qualified and non-qualified specialists will in the long-term increase by 5,7% and 5,5% respectively after signing the DCFTA and by 2,5% and 2,3% in simple case.

5. WHAT SHOULD BE DONE AND WHO WILL BE THE MAIN PLAYERS?

First, Ukraine should create a model for domestic labour market regulation and take into consideration that this model:

- should be formed as a supranational and adapt international regulations to domestic peculiarities;
- should combine instruments of state and market control. State influence should be higher in the financial sector, at the same time regulation of labour markets, goods and services should be more liberal;
- should influence economic interests of the subjects of different types of ownership and reduce the costs of goods while increasing the productivity performance, which, in its turn, requires the creation of the developed competitive environment;
- should protect national producers, support and improve their reputations;
- should be socially oriented, as social pressure on every employee is dramatically increasing and will continue to grow in Ukraine as well as in EU countries. This can be dangerous for the financial stability of the economy.

It is necessary to shift from assistance policy to securing full and productive employment in Ukraine. In the case of European integration two interconnected approaches should be applied: external and internal. The first approach presupposes the creation of new jobs which can be achieved in the following way:

- trade liberalisation;
- development of international cooperation for financial markets stabilisation, reducing the prob-

lem of balance of payments and lowering the long-term discount rates;

- net export stimulation;
- attraction of foreign direct investments and credit resources to support key economic sectors;
- regulation of external labour migration.

It is necessary to introduce the following changes in labour market regulation policy:

- liberalisation of employment and dismissal regulations followed by the elimination of discrimination and protection of employee rights;
- removal of the informal employment regulation practices at enterprises and in various regions of the country;
- stimulation of internal labour mobility, redistribution of human resources as a result of employment reduction in agriculture, the mining industry and public sectors of the economy;
- stimulation of education and healthcare sectors, and improvement of national labour force competitiveness;
- stimulation of competition between regions aimed at attracting a better labour force and investments.

Association with the European Union requires comprehensive changes in the regulation of the markets related to the labour market as the latter depends on credit markets, investments, housing, goods and services.

As for budget policy, it is necessary reorient toward the increase in investment and innovation expenditures (in human capital) and the reduction of social expenses at the cost of devolving more powers to the regions.

Regarding taxation policy, it is essential to minimise the changes in the taxation system, introduce tax benefits for innovative enterprises including those that invest in human capital, employ socially vulnerable workers and to simplify the system of taxation.

As for investment policy, it would be reasonable to lower business risks; improve the level of legal protection of the competition by securing more rights

12. Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan. Veronika Movchan, Ricardo Giucci. German Advisory Group, - Institute for Economic Research and Policy Consulting. Policy Paper Series [PP/05/2011].



for businesses to protect their interests; stimulate business activities on regional and local levels and enhance the effectiveness of their legal regulation; create a National Investment Council; and develop a strategy (road map) for entering into the market.

Key objectives of labour legislation reform include: securing the legality of norms and principles of labour regulation as well as social and labour relations, creating appropriate working conditions that allow employees to improve their productivity and creativity levels, and strengthening the security of employees in all spheres of their activity.

The Ukrainian course towards European integration requires the following emphases of state and regional policies:

The legislative power- the Verkhovna Rada of Ukraine should:

- adopt the Labour Code of Ukraine by preserving previously secured rights for employees, conforming to the norms of numerous acts and adding new approaches that are adequate for a socially oriented market economy;
- eliminate all discriminatory laws regarding the rights of employers and certain categories of employees from the new draft of the Labour Code, which is currently being revised by Verkhovna Rada;
- adapt labour and employment legislation to international standards and with this aim to prepare necessary legislative proposals, namely: the creation of the Ukrainian Guarantee Fund for the protection of employees rights to payment in case of an employer's bankruptcy; increasing the economic responsibilities for employers and economic entities in case of late payment of wages; protection of employees demands in case of employer's insolvency; and securing the protection of labour.

The executive power – the Cabinet of Ministers of Ukraine should:

- develop and adapt the State programme for employment within a reasonable time frame;
- prepare the concept of labour payment reform;
- establish the instruments for labour relations diversification, namely provide the legislative regu-

lation of existing innovative types of employment contracts; new forms of unconventional employment that are spread around the world, such as leasing of the labour force or on-call work; introduce flexible employment forms to solve the problems of unemployment and help to find and optimise a new labour force without a violation of employees rights;

- redistribute the responsibilities in the sphere of labour market regulation between central, regional and local governments; increase the participation of the regions in labour market regulations. The State Employment Service of Ukraine should secure the implementation of the following functions:
 - analysis of the labour market with regard to the supply and demand;
 - balance of professional training and labour demand;
 - formation and delivery of the government order for personnel training;
 - implementation of a job rotation system for temporary employment (including employment abroad)
 - promotion of self-employment.

The judicial power should improve the system of labour courts, which will enable employees to defend their rights in a quicker and easier manner.

On the state level it is necessary to establish:

- professional standards according to the National Qualifications Framework and the current international requirements;
- minimum and maximum unemployment benefits;
- the list of the professions for which the professional training, retraining and qualification development are provided;
- the list of priority categories of the unemployed who have problems finding a job;
- quotas for attracting and employing a foreign labour force.

The local authorities should:

- monitor the labour market situation;
- develop regional projections of supply and demand with regard to professional and vocational groups specify the strategies and plans concerning the development of professional training;



- regulate the distribution of human resources on the basis of programmes for an increase in labour mobility;
- develop and implement the programmes aimed at informing the population on the labour market situation, career guidance, and coordination of the projects that would promote blue-collar jobs.

6. WHAT CAN WE BORROW FROM THE EXPERIENCE OF THE EUROPEAN PARTNERS?

An important achievement of the EU countries is the European Employment Strategy which includes: creation of new jobs, quality of work, labour productivity, decent remuneration of labour, social security, professional and social skills, pan-European freedom of labour for everyone. Each of these components has certain peculiarities depending on the country. The instruments mentioned below could be useful for Ukraine as well.

The policy of new job creation in the EU countries

The key instruments of this policy are: grants, full or partial expense reimbursement for professional training/retraining, free assistance in personnel search and other benefits provided by EU structural funds and local authorities.

For instance, in Hungary there is no minimal volume of investments provided for new job creation. If the staff is increased by 300 workers in Budapest or Western Hungary, or by 150 workers in less developed regions and only by 20 workers in the 48 least developed areas the state provides a tax benefit of 80%. Furthermore, 20% of the newly employed workers have to be recent graduates. The companies must keep to these two requirements during a five-year period, beginning with the third tax year after the year when the reduction in development tax was used for the first time. Education grants are issued in cash irrespective of the maximum subsidy intensity ratios. The amount of grants depends on the company size, location of the investment project and the specific character of studies. A grant can cover from 25% to 90% of the tuition fees.

In the Czech Republic the non-refundable credits for new job creation in the most deprived areas can amount to 50000 Czech crowns (2000 euros) per worker and/or 35% of the costs for professional training and retraining of the staff. 10-50% of total training expenses can be compensated by state grants depending on the unemployment level in the region of investment.

In Poland, the amount for grants can equal 4000 euros, or 50% of training expenses. In Bulgaria, new tax benefits have been introduced the investment projects in areas of high unemployment.

In Croatia, there is a one-time grant that amounts to 15 thousand Croatian kunas per future employee. The only condition is not to decrease the quantity of employees within three years minimum. Also, in order to develop the measure for personnel training, the state compensates up to 50% of costs spent on such measures.

New job creation is also supported by tax benefits (corporate tax). Expenses on the wages of all new employees for the year can be deducted twice because of taxation targets.

Remuneration policy

In Ukraine labour remuneration is overregulated, while in EU countries it is decided through collective bargaining or individually at a company level. At the same time, necessary relationships between sectors and occupations as well as potential inflation levels are taken into consideration. The question of shifting from industry sector annual agreements to medium-term social contracts is crucial for both Ukraine and EU countries.

In developed EU countries (such as Germany and France), according to the principle of solidarity, all working citizens have the right to the provision of social protection and benefits (in an amount appropriate in relation to their previous income) in case of unemployment as a result of social risks. Unemployed citizens who lack the means for a proper existence are granted the right to social help, which is the equivalent of minimum wage.



The Guarantee Funds could become a new effective instrument that would enable Ukrainians to protect their right to timely and full payment of wages. Currently these rights are often violated in the country. In addition, European standards of wages and social protection are difficult to achieve in modern Ukraine.

Labour relations policy

In most EU countries there are national trilateral consultative bodies, which are only entitled to make decisions in special cases (Latvia, Lithuania, Poland, Slovakia, Hungary, Czech Republic). The example of Estonia is useful. Besides traditional members (government – trade unions – employers) voluntary professional unions, representatives of the public sector as well as labour inspection and judicial bodies are included into the social dialogue in Estonia.

Unlike the functions of the National Trilateral Social and Economic Council of Ukraine, EU countries apply a wider approach to national and social dialogue which goes beyond tackling traditional issues. Such issues include: expenses for social goals, national social and wage standards, clarification of laws and legislative acts on social and economic development, etc.

7. WHICH MEASURES CAN THE EU APPLY FOR CONVERGENCE WITH UKRAINE?

Considering the European integration experiences of other countries and specific problems in the Ukrainian labour market, we believe that EU assistance will be essential in the following areas:

- to support various innovative activities in Ukraine in order to stimulate productive employment. For this it is necessary for Ukraine to join the European Research Area to involve Ukrainian businesses, organisations and researchers in science and technology development programmes;
- development of a primary, highly qualified segment of the labour market by supporting Ukrainian state and private universities and providing opportunities for lifelong learning. Internships for Ukrai-

nian students and specialists in EU countries, dual diploma programmes, and professor exchanges are some examples of positive practices.

- assistance in the establishment of modern labour market infrastructure, namely social dialogue principles and rules and improvement of labour laws in accordance with European standards;
- equal distribution of foreign direct investments in various regions, avoidance of concentrating these funds in metropolises and securing the development of other territorial labour markets. In this case, high technology companies that produce competitive goods and services should be the priority area. It is important to revitalise the technological base of metallurgical and mining companies as well as energy conservation technologies.
- support of local authorities (not central government) to assist the unemployed, especially those who lost their jobs as a result of structural reorganisation. Ukraine has an unfulfilled demand for new job creation in the public sector, as this field has been unsuccessful for the past twenty years.

8. WHAT ARE THE GENERAL CONCLUSIONS?

The future of Ukraine is closely connected to the direction of European development. DCFTA implementation and association with the EU are the first important steps toward the long-lasting and complicated process of integration. Its impact on various spheres of Ukrainian society is uncertain. There will be clear changes in the labour market especially in the areas where vital interests of employers and employees intersect.

The modern Ukrainian labour market model is paradoxical and its contradictions create obstacles for effective integration. Employment and remuneration policies are uncoordinated, state and market regulators do not interact, adopted decisions are reactive rather than proactive, and the labour market is separated from other markets, namely housing, credit, investment, goods and services. The government controls employers' profitability, but not their payments to employees. New laws are being developed, but they are continually violated.



The research has demonstrated that necessary labour market changes coincide with measures that should be taken for the European integration of the Ukrainian economy. In the case of their implementation, the conditions for functioning and regulating of the labour market will approximate the European ones. In turn, EU countries are interested in having Ukraine as a full partner, and not as a problematic country standing at the crossroads.

What are the benefits and losses of integration in the short and long-term perspective? At the initial stage negative effects will prevail, while in the medium and long-term perspective there will be substantial economic and social gains.

The advantages of European integration for the Ukrainian economy and labour market are the following: adjusting labour legislation in Ukraine to comply with EU requirements, the creation of new jobs, favourable investment climate and business environment; labour productivity growth; effective relocation of human resources; increase of labour competitiveness; establishment of a new corporate culture; and the improvement of the population's quality of life.

The economic risks and threats of European integration are: economic dependency on external factors as a result of export expansion; dismissal of employees due to enterprise restructuring; a decrease in demand for national goods and services in uncompetitive sectors; lack of investment in the replacement of outdated technologies; lower quality of the national labour force compared to foreign specialists; and the interest of the western investors in quick and safe capital repayments rather than in innovations.

The social risks caused by European integration can affect employees who may lose their jobs as a result of structural changes as well as low-skilled workers and workers with low mobility. However, job loss can occur in cases of lower labour competitiveness, and/or unwillingness to work more intensely at the European standard level. Besides this, there may be a reduction in wages in those sectors where the demand for the goods will decrease.

The model of national labour market regulation should be adapted to international standards by combining the state and market influences, stimulating labour competitiveness, protecting national producers and applying a social approach to economic development. In order to achieve positive effects from European integration in the labour market it is necessary to adapt effective strategies that make it possible to influence the economic and social interests of all parties concerned.



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