Abstract

In spite of economic stabilization and the growth rate up rise since 2003, Ukraine has received less than 5 billion EUR in FDIs over the last five years. This is lower than other less attractive countries got, notwithstanding the fact that Ukraine has a steel industry of international significance, great agriculture potential and an automotive industry which accounts for almost 6% of the value added generated by the industrial sector. The new government of Ukraine has declared the foreign investors flows into Ukraine among its top priorities. More foreign investments in Ukraine were expected already by 2005 also if the legacy of the former government and the approaching parliamentary elections might lead to more short term antagonism and populism. The winds of the electoral campaign are already storming throughout Ukraine. The Author presents in the final section of the paper also a brief inside evaluation on the defence and aerospace industry, both from the civil and military sectors side. Aviation and aerospace in Russia and Ukraine have many points in common and it could not be different after such a prolonged common history in the same “military industrial complex”. But the future will be in many ways very different from the past. Ukrainian industrial capacity is more or less completely emarginated from the international partners and markets. EU and NATO should not miss the opportunity to take into account the human capital and the technology achievement already accumulated by Ukrainian industries, research centres, academies, laboratories.

Key Words: Ukraine, reform process, foreign investments; European Neighbourhood Policy, optimal development region, aerospace and defence industry

1. Ukraine in Transition

Ukraine had substantial difficulties reorganizing its economy following the collapse of the Soviet Union and to date some argue it has not yet reached the production levels recorded in 1991. But the data might be not reliable at all and the situation in real terms should therefore be better. We have seen the same picture in many Central Eastern European countries in the Nineties. In relative terms, the transition had produced wide and great developments even if the country started only recently a true reform process. In fact, per capita GDP (based on PPP) is higher than that of China. But the number of cars per 1000 inhabitants is just over 100, which is half the ratio in Bulgaria, and looking at the number of computers per capita Ukraine is just behind Morocco and has about one-fifth of the numbers recorded for Hungary and Poland.
However, since the crisis in 1998 that was triggered by the Russian default, Ukraine has turned the corner.
The country has stabilized but it is running into current account deficit and its growth rate has declined in 2005. Now Ukraine is facing a radical change in social and economic architecture, at the price of economic imbalances, social repercussions and financial challenges. It is really the syndrome of the transition phase to be afforded in the medium term. But the political situation is now over heated by the reformist movements and the opposition of the former government. In the first months of next year a general parliament election will call the Ukrainians to express their attitudes. From here to the vote electoral campaign will postpone the solution of the real problems of the country.

2. Why situation is still tense and contradictory

In spite of economic stabilization and the growth rate up-rise since 2003, Ukraine has received less than 5 billion EUR in foreign direct investment over the last five years. This is lower than other less FDIs attractive countries got, notwithstanding the fact that Ukraine has a steel industry of international significance, great agriculture potential, and an automotive industry which accounts for almost 6% of the value added generated by the industrial sector. The government has declared the foreign investment flows into Ukraine among its top priorities. Given economic prospects and government policies, more foreign investments in Ukraine are unlikely to be expected already by 2005. Unfair competition as a result of bad government past policies was the reason for the low FDI inflow. Former Ukrainian government promoted private interests of a limited group of businessmen. Unfair privatization sales with the limited access of other investors, as well as violent ownership takeovers took place. The new government has committed itself to stop this practice. Corruption represents a severe brake on investments. Ukraine consistently ranks among the most corrupt countries in Transparency International's annual review of transparency and corruption. On Transparency International's Year 2000 Corruption Perception Index, Ukraine ranked 87 (tied with Azerbaijan) out of 90 countries. Only Yugoslavia and Nigeria ranked worse. In Ukraine, a group commonly referred to as "oligarchs" control a significant portion of the economy, particularly in the spheres of mass media, energy and heavy industries such as steel and chemicals. Many of these oligarchs enjoy immunity from prosecution thanks to their seats in the Rada (parliament). Even so, the process of reforms is giving more results than the data could tell us and the real improvement of the economy and the social conditions are perceived by the same Ukrainian citizens.

3. Ukraine’s Economic and Financial framework

Strong foreign demand for metals and high prices enabled exports to expand by 45% yoy in dollar terms in the first three quarters of 2004, alongside an increase in imports of 29%. Even exports of foodstuffs and chemical products rose sharply. The current account surplus rose from 2.5 billion US dollars (6.7% of the GDP) in the first three quarters of 2003 to 5.8 billion US dollars (13.8% of the GDP) in the same period in 2004. But now GDP is expected to decelerate to 6.0% in 2005 and to even 5.5% in 2006. Year-end inflation is forecast to slow to 8% by 2006. The currency has strengthened recently, but will remain broadly stable in nominal terms against the US dollar in 2005-06. The current-account surplus reached a record high in 2004, but will decline in 2005-06 as export growth diminishes. Although output growth is likely to have declined in December on account of the political events, real GDP growth is...
likely to have jumped to about 12% in 2004 as whole, due to the proximity of the election and the connected operations done by purpose to support the ruling majority.

4. Budget deficit widens

A significant increase in expenses on social security, wages and defence, coupled with only moderate success in collecting value added fiscal revenues, have led to a consolidated budget deficit (of the central government and local authorities) of 1.8% of GDP in the first ten months of 2004, despite strong economic growth. In the same period of the previous year there was a surplus of 1.8% of GDP. The 2005 budget calls for a central government deficit of 8.8 billion hryvnias or 2.3% of GDP; the general government deficit will probably be somewhat higher. Regardless of what the parliament decides, however, it is the political processes of 2005 which determine the actual development. Discussions on the budget are going on where on the one hand there are calls for a balanced budget – also from Yushchenko – but on the other side there is also a wide range of diverse promises made during the election campaign that have to be addressed. Among them, the review of the some crucial privatizations ruled by his predecessor Leonid Kuchma and attributed to a group of “oligarchs”, among whom his son-in-law Viktor Pinchuk. Now a soft “rethinking” disputes re-auction plan is on the way with the aim to avoid radicalism with a kind of agreement with the actual privatization owners, a complex process that will see the Government, the Courts and the international financial and business community very much active in following the events. A very touchy dispute. At the end the solution should not undermine the credibility of the property rights in the country and in the global markets.

A recent working paper by Olena Bilan and Boriss Siliverstovs, published by the IERPC-Institute for Economic Research and Policy Consulting/German Advisory Group, showed the real link between pushing inflation dynamics higher than expected. The paper explores dynamics of inflation in Ukraine during the period of relative macroeconomic stability. The analysis of interrelationship between inflation, money growth, wage growth, and a proxy for devaluation expectations is based on impulse responses and variance decompositions of a vector auto regression model. The findings showed that changes in devaluation expectations appear to be the most important factor driving price development, while money supply growth has negligible impact on inflation. In addition, the Authors results put in evidence the high
degree of inflation inertia, which may reflect the specific institutional settings of Ukrainian economy. While Igor Burakovsky in the June Monthly Economic Monitor of Ukraine (MEMU) shows a picture where economic growth is continuing to slow because the stabilization process is just at the beginning and there are still many unsettled structural problems in the country.

5. Still waiting for FDIs substantial inflow

The expectation that Ukraine will become a location for more investment projects in the coming years must still be demonstrated by the FDI flows. Given the open trade policy followed by Ukraine’s government, by locating projects in Ukraine investors will be able to reach both CIS and European markets, as well as to capture growing Ukrainian market. An effort is on the way in this direction at all the level of the country governance.

Lack of consistent international policies of the former government did not allow Ukraine to develop in a strategic way. Trying “to go West and East simultaneously”, the former government used to make decisions which often contradicted each other. The new government determined to play the European Union card as its ultimate goal. Such step is expected not only to ensure consistency and predictability of the government policy, but also facilitate Ukraine’s movement towards European standards in all spheres. Experts and analysts forecast that the change in government will intensify this drive in 2006–2007. In 2005, despite the long-run commitment to liberal economic policies, legacy of the former government and the approaching parliamentary elections will lead to more fire-fighting and populism. The government will intervene into the most imperfect markets and implement decisions to keep pre-election promises. These actions will hopefully allow gaining more political support for the government after the parliamentary elections in March 2006. This “political capital” should contribute to the political stability in Ukraine and be utilized to achieve the strategic goal of adjusting Ukraine’s economy to European standards.


According to ICPS-International Center for Policy Studies experts, the Government will work towards mainly short-term and low-cost objectives throughout 2005 and will simultaneously prepare to carry out large-scale reforms over the next few years because its chances of winning in the 2006 Verkhovna Rada elections are fairly high but not yet accountable.

2005

ICPS economists have downgraded their forecast for real GDP growth for 2005 by 1 pp, to 7%. Key reasons for this slower growth in 2005 are:

- **Slower investment.** An uncertain situation around the review of previous privatizations coupled with frequent use of administrative pressure on business is preventing Ukraine’s investment potential from being realized. A 6.7% decline in construction over January–May 2005 and a noticeable reduction in the number of press releases about business developments posted by major companies indicate that investment activity has abated.

- **Stabilized foreign economic situation.** The economies of Ukraine’s key trading partners are slowing down. In addition, 2005 saw a temporary adjustment in steel prices on global markets, the result of large world reserves and expanding output during the period when prices were high.

- **Accelerating imports.** Imports are picking up faster than exports as the “Stop Smuggling!” program kicks in and imports begin to move out of the shadow economy, and other steps, such as reduced import duty, a stronger hryvnia, simplified customs procedures, and more, have their
effect. Price controls applied by the Government in April–May 2005 helped hold back CPI growth, but they increased inflationary pressure. Given the greater-than-expected effectiveness of these steps, ICPS economists have adjusted their forecast for 2005 CPI growth downward by 2 pp, to 14%. After it grew stronger in Spring 2005, upward pressure on the hryvnia noticeably subsided. The National Bank will support a stable nominal hryvnia exchange rate against the US dollar throughout 2005. Moreover, strengthening the hryvnia further might prove problematic because imports are growing faster than exports.

2006
Real GDP to slow down to 6% in 2006 following ICPS forecasts. The key factor behind this slowdown will be slower growth in private consumption as increases in social payments taper off compared to 2005. Overall, investments will grow faster in 2006. Economic growth among Ukraine’s key trading partners will continue to slow down: ICPS expects growth among Ukraine’s key trading partners to shrink from 4.4% in 2005 to 3.8% in 2006. Coupled with a drop in global steel prices, this will slightly limit export growth. After the 2006 elections, the Government will shift the key emphasis in its economic policy from improving the current personal financial standing of Ukrainians to implementing large-scale, long-term reforms.

7. Implications for the EU

Despite a population of almost 48 million, Ukraine currently plays a relatively small role for the EU economy, for the reasons before mentioned. German imports from the Ukraine for example totalled 742 million euros in 2003, only one-tenth of the import volume from Slovakia and one twentieth of goods imported from Poland (Austria: 272 million euro, corresponding to one-sixth of imports from Slovakia and one-quarter of imports from Poland). But economic relations between Ukraine and the EU are now likely to intensify. After all, no less than 40% of Ukraine’s exports flow into the EU-25. Three of the new EU member states share their borders with Ukraine, and once Romania joins this number will rise to four. Ukraine is not offered sufficient prospects within the “European Neighbourhood Policy Initiative”. In order to stabilise the region from a political and economic point of view, the EU cannot afford to keep the door closed to Ukraine, even if a pre accession phase is far from being realistic. A different formula should be found. Also because this expectation will play a great role in the development of the next three-five years. The present economic situation is in fact very much instable and needs to be implemented by concrete and substantial foreign support.
Strengthening relations with Ukraine will intensify certain questions that are already on the discussion table: at current exchange rates, wage cost in Ukraine amount approximately one-eighth of those in Poland, one-quarter of those in Slovakia and less than half of the corresponding costs in Romania.

What should one do with a cheap labour country on one’s doorstep? This is also a question asked by the new EU member states. And again, the only answer can be to accelerate the process of structural change in one’s own country and cushion the adverse social impact of this process, instead of fighting futile defensive battles. Small and medium-sized enterprises in particular are in any event likely to find it much easier to outsource production to Ukraine than to China. This is the case of Germans, Italians, Austrians and even new member countries’ entrepreneurs, who are watching with interest, ready to invest as soon as the minimum framework conditions will be established, specially regarding property rights, criminality, corruption, more reliable laws on foreign investments, privatisation transparency, border crossing and trade facilitation.

8. The European Neighbourhood Policy Initiative (ENPI) is not enough for Ukraine

Even if it could appear a too generalizing approach, the ENPI’s objective draws for the first time a political will of the EU to share the benefits of the 2004 enlargement with neighbouring countries in strengthening stability, security and well-being for all concerned. It is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbours and to offer them the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation, we can read in the official papers. This does not mean EU should enlarge continuously to reach concrete integration goals. There are many different forms and level of association and cooperative policies that could bring the same results even in a better way. Just to mention and not entering into the intriguing debate, the political attitudes of many European countries is now very cautious if not negative with reference to further enlargement after 2007.

No doubt this process takes time, implementation and further focusing. Ukraine is not simply a neighbour Country. It is a special case for the long run perspective of the EU and for a wider concept of the global role of Europe and the challenges already emerging. Transition is not only an exclusive problematic, critical issue for the countries transforming into a coherent system of market economy, democratic institutions, rules of law, fight against corruption and criminality, and governance of the social and political processes which all these aspects imply. Not to forget the security and international order aspects, with the regional approach to all the “neighbours” of Ukraine, Russia first of all, but also the Black Sea countries and Central Asia. Turkey, which from some analysts point of view is pictured as competitor of the country’s future role and relations with Europe, could become a real partner in a regional cooperation much closer to the EU integration than many other inconsistent options. But in the same time Ukraine have to deal with the bordering enlargement countries, Poland, Slovakia, Hungary and soon Romania. Many Europeans don’t even know that these countries are bordering Ukraine. Who after Kiev is going to Lviv too, has an immediate perception of a Central European capital, with a multicultural and transnational heritage that will become an asset in the future relations of the entire country, if this precious endowment of favourable factors will be exploited properly. I had to explain in my lectures and papers to a lot of people, university colleagues, well educated professionals, managers and practioners where Lviv is situated, why it was called in the past, why it so relevant in the national life of today’s Ukraine. The same happen when I talked in the same occasions of Kharkiv, Dnipropetrovs’k or Crimea, frequently attributed yet to Russia. Only Kiev represents an acquired geopolitical concept in most of the public opinion.
Other factors of difficulties have in the meantime emerged, not regarding the East West relations but the instability and rumours of conflicts still burning around all the Middle East, the Eastern Mediterranean and the Caucasian and Eurasian regions. All of them being vital areas for Europe - Russia included and not excluded, and obviously for the US - but also for other new emergent and differentiated players of the international arena: China, India, Iran, Israel, Egypt, Turkey, Kazakhstan to remain in the picture I have mentioned before. Ukraine is now set in a special position to play its own role in this dimension. It should not be a radical alternative or a kind of “changer la femme” vis à vis the relations with Russia. In many aspects, for many national interests, due to the long common past, the special regional ties with Russia in economy, trade and future developments are to be seen as productive and helpful to Ukraine. But the main stream will be more and more European integration.

9. The links to the US

Ukraine has such ties and interests in the international arena that the value added of cooperation and alliance with US cannot not be left out of the agenda. The United States provides assistance to Ukraine through the Department of State, USAID, Department of Energy, and the Department of Labour that can facilitate Ukraine’s progress towards further European integration. Progress towards completion of the Action Plan objectives may, in turn, make Ukraine eligible for the Millennium Challenge Account (MCA). MCA projects would likely further fuel momentum towards completion of Action Plan priorities. But the US is also one of the two pillars of the Transatlantic alliance, of NATO, of the democracies and so called welfare countries which are proposing to the world some decisive steps over the main issues related to economic development, end of poverty, democracy, gender parity, stability, cultural and religious tolerance and respect, security, real removal of the terrorism and factors fuelling it, commitment to integration both at regional, European and global level.

10. Why EU integration matters: Optimal Regional Economic Area

I have evoked “optimal regional economic area” and I cannot leave the topic without any reference to studies of the theory of clubs and unions, which have opened, both to theoretical thinking and applied economic policies, new windows of understanding. Alberto Alesina, Robert J. Barro and Silvana Tenreyro of Harvard University, observed in their paper “Optimal Currency Areas” (2002), “as the number of independent countries increases and their economies become more integrated, we would expect to observe more multi-country currency unions. We explore the pros and cons for different countries to adopt as an anchor the dollar, the euro or the yen. Although there appear to be reasonably well-defined euro and dollar areas, there does not seem to be a yen area. We also address the question of how trade and co-movements of outputs and prices would respond to the formation of a currency union. This response is important because the decision of a country to join a union would depend on how the union affects trade and co-movements”.

From the currencies to the market, from monetary union to real economic integration and trade in a regional, worldwide dimension: this is the approach that in future will have the greatest relevance in determining winners and losers in a competition that will show which will be the real unions, communities, clubs of countries, systems of alliances playing as effective great powers. History has already archived the international order organized on the basis of single countries. No value added options will be available for isolated countries to maintain the status of superpowers, if not in the contest of a nasty warfare environment. But we are already learning, in the East and the West, how inconclusive is any strategy without the concrete
support of an ever-increasing number of players, that in some cases are not even states or sovereign institutions. Globalization also means this political step forwards, and we could accept these implications or reject them but not leave anybody to pick up only those ones benefiting one or two countries. Opportunistic, isolated approaches would have a close horizon in the international environment.

This is why Europe represents, even more after enlargement and monetary union, a non unconventional “great power” and is already a vital, productive, efficient, innovative resource for partnership with many neighbouring countries and regions. The repercussion of the Constitutional crisis and the need of a new perspective for the EU stated at the level of governments and citizens are signs of great European capability and power and not of the dismantling or collapse of the Union. There are international players who are lobbying to reduce the EU’s successful competitiveness at global level or to contain the euro’s growing relevance in the financial markets or even to divide the unity on the strategic issues facing the future. There are no chances to block the process already achieved and the further integration in the stand-by list. At the condition that flexibility and appropriate differentiated forms of integration and enlargement should be formulated and put in practice. This is a season of extremely creative perspective for the EU architecture.

By the way Ukraine seems to fit perfectly into the optimal development regions as described in the brilliant paper “Geography and Economic Development” by Jeffrey D. Sachs, at that time at Harvard and not yet at Columbia University, together with John Luke Gallup and Andrew D. Mellinger. The paper addresses the complex relationship between geography and macroeconomic growth. The authors investigate the ways in which geography may count directly for growth, controlling for economic policies and institutions, as well as the effects of geography on policy choices and institutions. They found that location, neighbouring seas and waterways, climate, agriculture production and good land quality, meteorological proper trends have large effects on income levels and income growth, through their effects on transport costs, disease burdens, agricultural and industrial productivity, among other channels. Ukraine had been endowed with all the positive factors the prominent Authors have studied. On the other side they wrote that “geography seems to be a factor in the choice of economic policy itself. When we identify geographical regions that are not conducive to modern economic growth - they wrote- we find that many of these regions have high population density and rapid population increase. This is especially true of populations that are located far from the coast, and thus that face large transport costs for international trade, as well as populations in tropical regions of high disease burden. Furthermore, much of the population increase in the next thirty years is likely to take place in these geographically disadvantaged regions”.

11. Focus. Industrial international partnership in Defence and Aerospace industry

The Ukrainian aerospace and defence industry is more or less completely emarginated from the international partners and markets; the EU and Nato, however, should not miss the opportunity to take into account the human capital and the technology achievement already accumulated by Ukrainian industries, research centres, academies, laboratories. Kharkiv is the center of mechanical manufacturing in Ukraine defence sector.

The military-industrial complex of Ukraine is the most advanced and developed branch of the state's sector of economy. It includes about 85 scientific organizations which are specialized in the development of armaments and military equipment for different usage. The air and space complex consists of 18 R&D companies and 64 enterprises. In order to design and build ships and armaments for the Ukrainian Navy, 15 research and development institutes, 40 R&D and 67 plants have been brought together. This complex is tasked to design heavy cruisers, build
missile cruisers and big antisubmarine warfare (ASW) cruisers, develop small ASW ships. Rocketry and missilery equipment, rockets, missiles, projectiles, and other munitions are designed and made at 6 R&D and 28 factories. Too many, too much both for Ukraine internal market and the international defence needs. A deep reshaping of the sector is needed. Several fields of Ukrainian economy demonstrate high technological level of development in the defence related industries and their growing civil sectors. The country is producing carrier rockets, satellites and space research equipment. Ukraine is a considerable producer of military equipment, including tanks, military transport aircrafts, anti-crafts complexes and optical equipment. Antonov aircraft, lighter-aboard ships, walking excavators, precise machinery, and electric welding equipment are produced using state-of-art technologies and comply with the top world standards. All this said, today Ukraine aeronautic and defence industries are suffering a wide restructuring crisis that could be overcome only trough international partnership and openness of a true market economy

11.1 From statements to projects
A policy that appears easy to be announced but hard to put into practice. Both the civil and military aerospace sectors have assumed a decisive role in driving the innovation and R&D investments in all the more developed countries. In few years, less than two decades, Europe has become a major player in the world wide civil aviation production and market shares through the Airbus consortium. When it was promoted, many were sceptic on the outcome of such an industrial challenge to the American companies. Even in Europe the too narrow-minded but traditional “national” views have created more obstacles than the real competitors in the development of this global producer of aircraft. Out of more than three hundred companies present in the sector and operating as sub contractors or component producers in Europe, a dramatic selection cut produced a cut down to no more than 40 relevant enterprises. All the others, big or small “actors”, have been mergered, acquired or closed down.

11.2 European program Galileo opened to Ukraine
Negotiations on Ukraine’s participation in Europe’s satellite radionavigation programme finally reached approval as I before mentioned. A first agreement between the EU and Ukraine in the field of civil aviation was also initialised today. The agreement will give any European airline access to the Ukrainian market from any Member State of the EU and is a first step towards the creation of a Common Aviation Area with Ukraine. The Galileo agreement initialed with Ukraine provides for co-operative activities on satellite navigation in a wide range of sectors, particularly in science and technology, industrial manufacturing, service and market development, as well as standardisation, frequency and certification. It also represents the first step towards the extension of EGNOS (European Geostationary Navigation Overlay Service) to Ukraine and the participation of the country in the programme through a stake in the Galileo Joint Undertaking. Ukraine is one of the eight countries within the world space community with significant technological knowledge on space and important achievements on GNSS (Global Navigation Satellite System) applications, equipment, user segment and regional technology. The Ukrainian space industry is among the world’s leader in the design and production of launchers and GNSS components.

11.3 Ukraine aerospace industry perspectives
The situation of civil and military aviation in Russia and Ukraine has many points in common and it could not be such different after such a prolonged common history in the same “military industrial complex”. The Ukraine aviation industry has suffered a serious decline over the last 15 years. Only recently new programs and major developments in the sector, which is
undergoing a major restructuring, have reopened the perspectives of new projects both in civil and military aviation as well as in the space projects. The components sectors will be affected positively if the developments will be confirmed by concrete international partnership and investments.

A large share of domestically operating or produced aircrafts in Ukraine do not meet international standards and need upgrading or replacement. Also in Russia the problem is acute, even if recent agreements are encouraging the aerospace sector. Domestic Ukraine manufacturers, however, with their current technical capabilities are unable to meet the demand for such aircraft. Again, economies of scale are vital in the long run, the market presents significant opportunities for European and American aerospace exports and investments. The major commercial aviation companies - such Airbus and Boeing – are looking to engage in joint production projects and component supply. While purchases of western-made aircrafts are still constrained by tariff barrier, Ukraine manufacturers and scientists are seeking partnerships and cooperative ventures with western industries and research centers. The EU will now open some of its programs in the aerospace research and innovation to Ukraine, in the framework of the recently approved Action Plan and other special agreements on the way to be negotiated. In the short term, the overall growth of the Ukraine aerospace industry will remain anyhow depressed as far as the production of civil and military aircraft is concerned.

According to industry experts, Ukraine airlines own between 2 to 3 times the aircrafts than they currently need to service their current routes. Many airports are harbouring out-of-date aircraft inherited from past times. Under the market conditions that have prevailed over the last decade, demand has dropped and most aircraft has become surplus to requirements. Many have been cannibalized for parts. Still a quota of the fleet currently operating is considered aging, unreliable and inefficient. Around 80% of existing aircrafts were designed between 1960 and the early 1980s. Since the 90s, the Ukrainian budget stopped providing financing for aircraft procurement, which made replacement of many aircrafts almost impossible. Consequently, Ukrainian Authorities and airlines are scheduled to replace as much as possible their aging fleet over the next five-ten years. Many would strongly prefer to lease or buy Airbus or Boeing planes.

On the one hand, the civil aerospace industry is unable to produce suitable replacement aircraft within a realistic time frame, leaving domestic operators with few options to meet demand for transportation needs. Airlines appear to have lost confidence in the capabilities of the domestic industry. Those few crafts delivered to customers need significant technical maintenance. However, lack of spare parts prevents airlines from operating them efficiently. Though facing financial difficulties, the airline industry will be forced to procure foreign made aircraft in order to be able to fly internationally.

On the other, opportunities arise in working with Ukrainian partners on joint projects ranging from development of new aircraft, supply of fasteners and avionics, to joint production of jet engines and equipment. Best prospects for European firms include exports of components for engines, avionics, technological and production equipment as many facilities need replacement of obsolete capital assets. Exports of components will enable producers to bring their products up to world standards and at the same time will support a start up of components partnership among the existing industries.

Mergers and restructuring of the existent producers plants are a real need. As experience shows in Europe, no national way or past alliances will help Ukraine to maintain a role in the aerospace sector. The defence industry and the commitments to the international engagements introduce some aspects not related to avionics or aerodynamic but to foreign policy, geopolitics, technological progress, industrial spin-offs, and choices of partners both in the research and in the production of component or equipment. Political options imply new steps in
many directions, not dropping off but reviewing and upgrading even the industrial agreements
with Russia. Europe will be more and more a special case of partnership, a privileged ally and
interlocutor for Ukraine even in the transatlantic relations.

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