PRESS RELEASE **15 November 2023**

Study: Ukraine's EU accession is feasible

- *Ukraine economically not an outlier, but a candidate country similar to Romania*
- *Catch-up process like in Central Eastern Europe's EU members realistic*
- *IT, agriculture and defence with great potential*
- *Population loss endangers reconstruction*
- *Corruption and weak rule of law must be systematically addressed*

Would the EU be able to cope economically with Ukraine's accession and could it actually integrate the country? These questions were the subject of controversial debate even before the EU Commission recommended accession negotiations with Kyiv. Ever since Ukraine became a candidate for membership in 2022, a heated debate has been raging about whether such a large, poor, corrupt country with such a huge agricultural sector can even become an EU member without overburdening the Union. In a new study, the Vienna Institute for International Economic Studies (wiiw) and the Bertelsmann Stiftung have therefore looked at how Ukraine's economy compares to the countries of Central, Eastern and Southeastern Europe when they joined the EU between 2004 and 2013, as well as the current candidate countries.

Major conclusions: Measured against the economic accession criteria, Ukraine is by and large not a special case and, like the eleven countries that became EU members between 2004 and 2013, should be able to integrate successfully. *'The prerequisite for this, however, is the necessary political will in EU capitals to realise the potential that exists in Ukraine,'* says Miriam Kosmehl, Senior Expert Eastern Europe and EU Neighbourhood at the Bertelsmann Stiftung. However, there are major challenges. These include the enormous loss of population due to the war, still widespread corruption, weak rule of law, low productivity of the economy and low attractiveness for foreign direct investment.

In economic terms, Ukraine is unlikely to overburden the EU. If the country were to join today, the Union's economic output would increase by 1% and its population by 9% - a similar effect to Poland's accession to the EU in 2004. In the years before the Russian invasion, Ukraine's GDP grew faster than that of the EU between 2000 and 2008 and 2010 and 2013 as well as from 2016 to 2019. *'This suggests that Ukraine has the capacity to catch up as quickly after the end of the war as the new members in the east did, especially if it gains deeper access to the common market and gets EU funding,'* emphasises Richard Grieveson, Deputy Director of wiiw and co-author of the study. *'A credible EU accession perspective, which the country did not have until recently, will greatly help this economic catch-up process,'* says Grieveson. Ukraine's economic structure today is very similar to that of Romania before its accession to the EU and is strongly characterised by agriculture and mining, while industry plays a somewhat smaller role.

IT sector and agriculture with potential

In macroeconomic terms, the country was relatively stable before the war, even though inflation was traditionally higher than in other candidate countries and there was repeated downward pressure on the currency. Some areas of the Ukrainian economy, such as the IT sector, the metal industry, the defence industry and, above all, agriculture, are already very competitive and have great potential. *'Fears that the Ukrainian agricultural sector could become a bottomless pit for the EU budget are unfounded. On the contrary, thanks to its fertile black soil and cheap labour, Ukrainian agriculture produces so efficiently that it represents serious competition for many EU countries, as the dispute over Ukrainian grain exports to Poland and Hungary shows,'* says Grieveson.

Population loss endangers reconstruction

Alongside many bright spots, there are also dark sides. The most serious of these is the huge population loss caused by the war, primarily due to refugees. Regardless of how long it lasts and whether or not there is a further military escalation, Ukraine will probably never recover demographically from the consequences of the war, as another wiiw study with the Bertelsmann Stiftung has shown. Even in 2040, it will have around 35 million inhabitants, around 20% less than before the war (2021: 42.8 million). The decline in the working-age population is likely to be the sharpest and most far-reaching. The lack of labour will be a major problem for reconstruction and economic recovery. *'Flexible labour models have become even more important. A joint EU-Ukraine strategy could promote circular migration programmes and create incentives for EU companies to employ Ukrainians through 'virtual mobility','* says Kosmehl.

Corruption and weak rule of law

The second major hurdle is the still rampant corruption combined with still weak rule of law, despite targeted anti-corruption reforms in recent years. Ukraine is currently still far away from the institutional standards of the EU member states of Eastern Central Europe at the time of their accession and is roughly comparable to Bulgaria and Romania when they applied for membership in the 1990s. In order to reach the - admittedly low - institutional level of these two states when they joined the EU in 2007 (the EU Commission continues to oversee Romania and Bulgaria regarding their adherence to the rule of law), Ukraine still needs to make progress in the fight against corruption and, above all, reform its ordinary courts and law enforcement bodies in the long term. In its latest report, however, the EU Commission emphasises that Ukraine has made great progress in these areas even during the war. *'Based on the pace of reform in previous accession countries, Ukraine would be institutionally ready for EU accession in around ten years,'* Miriam Kosmehl explains. *'However, the strong Ukrainian civil society and the active expert community, the widespread desire for accession in society and the now proactive approach of the donor countries, for example through the G7 ambassadors, give hope for faster progress,'* says Kosmehl.

Lack of foreign direct investment

A major problem for Ukraine, which is also linked to the lack of rule of law and widespread corruption, is its traditionally low attractiveness for foreign direct investment (FDI). No other candidate country has ever attracted as little foreign direct investment as Ukraine. However, this is also the result of the country's lack of accession prospects until 2022. The far too little direct investment is also due to low productivity as a result of an inadequate vocational training system, low investment in research and development and extremely poor infrastructure. Added to this is the precarious security situation, which is likely to continue even after the war.

Role model Central Eastern Europe

'However, foreign direct investment modelled on the EU member states in Central Eastern Europe is indispensable for the country, even if Ukraine should go its own way here and above all take advantage of the opportunities offered by the green and digital transition,' explains Richard Grieveson. Simply imitating the successful model of the Central Eastern Europeans of acting as an 'extended workbench' for Western industrial groups by offering favourable labour costs – like in the important automotive industry - seems outdated to him. This is partly because this model is increasingly reaching its limits and partly because Ukraine's competitive advantage in terms of wages (currently around 14% of the German level) is lower than that of other countries in Central Eastern Europe at the time of their EU accession. In principle, however, Ukraine has similarly good prerequisites for an economic catch-up process as has taken place in the EU member states of the region. These include low wages, a generally well-educated population, technological potential, a strong industrial base and geographical proximity to the industrial core countries of Central Europe.

Security is crucial

The authors of the study come up with a series of policy recommendations to promote Ukraine's accession to the EU and its economic development. For them, credible military security guarantees for the country after the end of the war are key. *'This is the only way to persuade at least some of the refugees to return. New investors in particular will only commit to Ukraine if they can rely on being spared attacks,'* says Miriam Kosmehl.

The EU is recommended to offer foreign investors in Ukraine insurance against war risks, in order to ensure the inflow of private capital before the end of the war and immediately afterwards. Brussels should also help the country to develop a tailor-made industrial policy to promote existing industrial strengths, for example in the areas of IT, agriculture, renewable energies and the defence sector. The deepening of trade relations and an improvement in Ukraine's access to the EU internal market are also called for.

The study ***Outlier or not? The Ukrainian economy's preparedness for EU accession*** was prepared by the Vienna Institute for International Economic Studies (wiiw) and the Bertelsmann Stiftung and **is available for download here**.

About the Vienna Institute for International Economic Studies (wiiw)

For 50 years, wiiw has been an economic think tank that produces economic analyses and forecasts for currently 23 countries in Central, Eastern and South-Eastern Europe. In addition, wiiw conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution. www.wiiw.ac.at

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