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T.V. Momot<sup>1</sup>, N.E. Avanesova<sup>2</sup><sup>1</sup>*O.M. Beketov National University of Urban Economy in Kharkiv, Kharkiv*<sup>2</sup>*Kharkiv National University of Construction and Architecture, Kharkiv*

## PRIORITY AREAS OF STRENGTHENING ECONOMIC SECURITY OF THE DEFENSE INDUSTRY OF UKRAINE IN THE CONTEXT OF EUROPEAN INTEGRATION

*The aim of the study is the definition of the priority areas of strengthening economic security of the defense industry Ukraine in the context of European integration.*

*The potential military danger and real military threats to Ukraine have very different forms and are becoming more important. The attempts of our political elite to put in the forefront the universal human values, European choice, were not successful, and led to the weakening of the Ukrainian position in Europe and the reduction of its sphere of influence. An important role in this aspect plays its non-blocked status.*

*One of the major economic problems in Ukraine since the first years of its independence is a growth of threats to economic and, in particular, defense security of Ukraine. Uncertainty of problems in this area does not allow support of an appropriate level of economic growth. Complicated is the implementation of effective restructuring of economic security of the defense industry, negative impact is being made on foreign economic, tax, defense sectors and the budget process of our country.*

**Keywords:** *economic security, defense industry, European integration, industry.*

### Introduction

The modern defense industry of Ukraine is able to independently produce weapons and military equipment, which is competitive in world arms markets.

At the beginning of the XXI century, the world is undergoing radical transformation, accompanied by a change in the geopolitical configurations. The global financial and economic crisis was another challenge to world civilization, has led to prospects uncertainty of the global and national economies, and has accelerated the search for ways to modernize social systems. Amid threat escalation and the growth of instability in the world, international security is facing new challenges to in raw material, energy, financial, information, environmental, and commodity areas. The threats like the proliferation of weapons of mass destruction, international terrorism, transnational organized crime, and illegal migration, and piracy, escalation of interstate and civil conflicts become more intense, covering new regions and states. Regional threats to international security are growing that are negative by their effects and can have a potential global impact. [5]

There is a dangerous tendency towards revision of national borders outside the international law. The coercion and threat of force have returned to the practice of international relations, including in Europe.

Varied geopolitical influences on Ukraine in terms of inefficiency of its security guarantees, "frozen"

conflicts at its borders and critical external dependence of national economy cause vulnerability of Ukraine diminish its role in the international arena and push to the periphery of the world politics into the "gray zone of security".

But today more urgent is internal challenges to national security. Preservation of inefficient post-Soviet social system, especially regarding public authorities, distortion of democratic procedures that artificially restrained staff updating processes in national authorities caused weakness and sometimes even state's inability to fulfill its functions, primarily in the human and citizen rights and freedoms protected area, growing society's distrust in the state.

At the same time non-block status, which Ukraine maintain for a long time, imposes a number of restrictions on the exchange of military and scientific developments and technologies between the countries in the modern world, on free entry of investments in defense companies for production increase of advanced weapons and military equipment.

The development of technical and scientific potential of the defense industry and its ability to meet the national armed forces (AF) needs of high-efficiency weapon and its export are one of the important issues of military economy not only for Ukraine but also for other countries in the modern world.

To the matter of the determination of the current state of the Ukrainian defense industry and its prospects were devoted publications in periodicals and online

publications [1].

They held diverse analysis of existing achievements and problems of defense industry production of weapons and military equipment for the state AF and exports. At the same time, systematic assessment of the defense industry in Ukraine is not provided. Also, not identified are possible areas of industry management improvement in terms of non-block status of the state, not disclosed are advantages and possible losses in the defense industry upon the country's accession to the European Union.

### **Literature Review**

Greatly contributed to the study of the problematic issue of this research, such scientists as [1, 6]: V.K. Nestorkin, Y.L. Mostova, I.J. Matushenko, I.J. Buntov, E.V. Kovalchuk, O.M. Baranowskij, O.O. Gergel, O.P. Goncharenko, A.M. Sukhorukov, G.I. Udovenko, V.P. Perepelytsya, G.S. Yurchuk, G.A. Manchulenko, G.L. Kaban, V.K. Begma and others.

Ukraine intends to join the European Union that is why certain obligations must be assumed and implemented in accordance with established rules and procedures [2, 3].

To comply with these rules and procedures today the military-industrial complex faces the task of creation of advanced weapons systems of military units as a part of multinational groups of member states of the European Union [2, 4]. For the successful execution of such task, it is useful to consider existing in the European Union approaches in matters of military standardization and unification of weapons and military equipment. Therefore approach the principles of building up the advanced weapons systems and formulate areas of cooperation with the member states of the European Union.

Areas of co-operation in the EU member states in the field of development and production of weapon systems can be defined as follows.

Military and economic security support – is an important task for Ukraine. The degree of needs satisfaction in products of both defense and civilian use under extreme conditions is the criterion of military and economic security. Improvement of technology for civilian and defense production, refining of technological capabilities strengthen state military and economic security. The latter, of course, is determined by the latest achievements of scientific and technological progress [1].

### **Objectives and methodology**

The purpose of this article is the analysis of priority areas in the strengthening of the economic security of Ukrainian defense industry in the context of

European integration.

The defined objective of study determines research goals:

- to define the concept of economic security;
- to formulate the concept of military-industrial complex of Ukraine;
- to describe the deformations and distortions that will occur in Ukraine due to the neglect of the issue of strengthening the level of economic security of the defense industry in the course of European integration;
- to formulate the ways of the economic security of the defense industry strengthening.

In this study, were used general scientific methods and methods of economic research: a method of companion and system analysis.

The companion analysis method – is a comprehensive, in-depth analysis of the problematic issues of a certain category with the help of other sciences. In this study, the institute of industrial property is not separated from the relevant economic research. This method is also evident in the interrelated study of legal phenomena. In particular, the concept of economic security of the defense industry should be studied in terms of the fundamental principles of sub-branch of the constitutional and business law.

The system method lies in consideration of the economic security of Ukrainian defense industry as a system that is clear organizational form in which the components are united by the common purpose.

System analysis involves in the manifestation of its details, establishment of relationships between them, identification of common denominators, characteristic features, which allow combining items together.

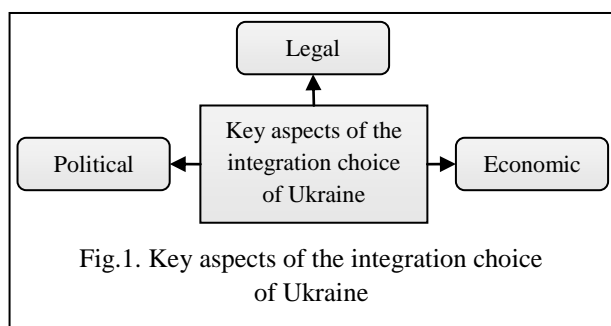
The object of study is social relations that develop in the field of economic security of the defense industry.

The subject of the study is priority areas in strengthening of economic security of the defense industry in the context of European integration.

### **Results and Discussion**

The European integration process should not be understood only as an institutional EU accession. In fact, it covers the whole spectrum of Ukrainian presence in the European subsystem of international relations, including social and economic integration, financial and business cooperation, the creation of a common security space, humane and civilizational interaction.

Integration choice of Ukraine is presented below in Figure 1.



For Ukraine, these aspects have a particular importance. The legal aspect - is the preservation of sovereignty and independence. Economic – the involvement of the country and the welfare of the nation. Political aspect ensures the civilizational future of Ukrainian society. Security cooperation Ukraine-EU lies at the intersection of these aspects. Signing of an Association Agreement creates new opportunities and risks in areas that have a direct impact on stability and security. It is therefore important to analyze the consequences of European integration in various fields.

To solve the problems of compatibility and interchangeability of its parts and units of EU member states there were established organizational structures, management and logistics systems, speech and communication systems, were regulated the relevant rules and procedures and was aligned the condition of information system based on modern technologies.

The following three main aspects of military and economic security should be brought into view: equivalent, offensive, defensive.

Equivalent aspect involves the establishment of equal relations between the countries and that will be a constraining factor for the attempts of developed countries to use foreign economic relations as a specific pressure on the less developed countries.

Offensive aspect involves range of measures aimed at increasing and improving the quality of country's export potential and at the same time strengthening the dependence on it of other countries.

The defensive aspect involves the replacement of import with domestic equivalents, especially in the defense industry and reduction of its dependence on import.

A prerequisite for military and economic security is adequate funding of the defense industry [2].

There must be made the transition from the physical transformation, which provides conversion of military industries for the production of civilian goods, to economic changes when the focus is at the redirection of domestic military products to foreign markets. This will enable use of the currency from the export of weapon for the gradual transformation aimed at producing goods necessary for domestic market.

Therefore, the defense industry can be not only a

consumer of the national product, but also its manufacturer.

The main objective of public policy in the military and economic sphere should be the creation of the self-sufficient national military-industrial complex. [3]

The transformation from the military into the civilian economy should be on a scientific basis, without weakening the military capabilities of Ukraine. It should be noted that the transformation has begun in the absence of its scientific and economic justification. As a result, it was destroyed by a powerful military-industrial complex inherited from the former Soviet Union and the Western countries in the global arms market became freer, as a strong competitor in the face of Ukraine disappeared.

The priority area can be the interstate cooperation in scientific research, development, production and disposal of weapons.

The support of storage of classified information of the defense nature is an urgent need. Now some defense companies became transit links for numerous foreign experts and consultants who have access to the important information that negatively affects the condition of the state's military security [6, p. 14-16].

Lack of the consistency and hastiness of the system during disarmament reduced the advantages of the army and led to significant budgetary implications, causing social tensions.

Military-industrial complex of Ukraine – is a combination of research, production and testing enterprises engaged in the development, production, installation for military service special vehicles, ammunition, weapons for the armed forces of Ukraine.

In addition, Ukraine is a member of the Council of Europe on the prevention laundering of the proceeds derived from the criminal activity and the State Financial Monitoring Service of Ukraine received membership in the "Egmont" [1]. However, only a few cases of money laundering were brought before the court, with almost none of them was convicted. This casts doubt on the fact of the laws application.

The main directions of further cooperation between Ukraine and the EU approved officially in the field of economic reforms regarding the strengthening of the defense industry should be as follows [4, 5].

1. Functional market economy:

- further progress in establishing a functioning market economy, including price setting, control over government aid and legal environment that ensures fair competition between economic operators.

- further progress in gradual approximation to EU legislation and support of its effective implementation:

- strategy implementation of the legislation approximation in priority areas, including improvement of the quality and consistency of documents;

- basing on mutual decision, to carry the collaborative work in the schedule preparation and in setting priorities for monitoring and assisting implementation to completion;

- to eliminate inconsistencies between the provisions of the Law of Ukraine "On Defense of Ukraine" from 06.12.1991 № 1932-XII and the decision of the National Security Council "On Urgent Measures of Ukraine Protection and Strengthening its Defense" from 28.08.2014 p.

2. Improving the investment climate, including ensuring transparency, predictability and simplification of regulations on its application:

- to consult domestic and foreign organizations, develop a program of work for the further implementation of regulatory reform aimed at reducing administrative barriers of the enterprises of the military-industrial complex development;

- to ensure equal application of rules across Ukraine, on central and regional levels;

- to adopt and implement a system for the assessment of the impact of regulatory measures, consultations of stakeholders to ensure transparency (predictability of regulatory environment).

3. Fiscal and monetary policy, exchange rate policy:

- to consolidate the progress made in implementing the policy of macroeconomic stabilization and growth;

- to strengthen the independence of the National Bank of Ukraine, including, if necessary, amendments of the Law of Ukraine "On the National Bank of Ukraine" in order to bring it into line with the EU standards;

- to strengthen financial stability, including through tax reform and taking actions of medium-term trends in the pension system.

4. Execution of a long-term and consistent program of structural reforms with the goal of further strengthening the functioning of economic security of the defense industry:

- to implement the privatization program, including large-scale privatization, and to increase transparency in the privatization process (most importantly – to perform privatization and manage it so that this would not affect the disclosure of state secrets);

- to reduce government intervention in price setting in order to prevent deterioration of trade terms and the economy;

- to strengthen regulation and supervision of banking activities;

- to develop domestic securities market and improve the regulation and supervision of nonbank financial institutions;

- to adopt a new law with a more clear definition of the responsibilities of directors, managers and

shareholders' meetings, strengthening disclosure requirements, and also enhance the protection of minority shareholders of companies that could be privatized in the country's defense industry.

At present ideal innovation in this area should be such a fundamental change as the prohibition of privatization in the defense industry, allowing only public ownership of them. However, in the current economic environment, it is very difficult to implement, even impossible [7] So, private (including) European investors can be life savers for the defense industry. In this case, the government needs a clear transparent mechanism of regulation.

According to international experience, invested in the defense industry economic resources give huge dividends. However, in Ukraine the development of the defense industry is never adequately financed from the state budget.

Unlike the defense industry of most other countries that have such a support UkrOboronProm cannot boast of this – until recently it was generally left without any government contracts[8]. It is not surprising that until recently, enterprises were purely commercial, and almost did not have any obligations to the state and its armed forces.

In the course of restructuring the economic security of the defense industry, the competences of public authorities should be in accordance with the rules of governance [9, 10]:

- formation of the government order with appropriate financing;

- definition of the rules and regulations of economic activity for all entities of the defense industry;

- enforcement of the antitrust policy;

- development and implementation of a strategy of military-industrial complex;

- administration of the tariff policy, taxation and licensing of industrial activity;

- information and analytical support;

- state support of exports and export control.

In the field of development and implementation of the defense-industrial policy to strengthen the country's defense industry it is necessary:

- to abandon the military-technical cooperation with Russia, that is now the main threat to national security, sovereignty and territorial integrity of Ukraine;

- to explore and use best practices in the defense industry;

- to intensify military cooperation with NATO countries, China, Japan, South Korea, Australia, Gulf countries and Israel, that will enable the maximum preservation of the national defense industry and increase its capacity;

- to gradually relocate the most important defense companies, primarily destroyed in the fighting in the Donbas, to central and western regions of Ukraine;

- the maximum transformation of Ukrainian defense enterprises from private to public ownership in the form of public holding companies, financial and industrial groups, leasing companies and consortiums. They will implement the certain military-industrial policy to avoid sabotage of some private owners of these companies;

- for the successful restructuring of defense enterprises Cabinet of Ministers should create favorable conditions for producers to provide guarantees to foreign and domestic investors who provide state support of leading businesses and organizations of the defense and industrial complex;

- to intensify the development and implementation of long-term government programs in the defense industry and military-technical cooperation to improve their efficiency, this in turn, will enable reception of at least \$ 2 billion a year;

- to develop a national program of export stimulation of modern Ukrainian weapons to maximize the funds use for the development of the domestic defense-industrial complex that should be self-financed or at least finance themselves per 50%;

- to improve the marketing policy of defense enterprises to promote domestic military goods on world markets in a competitive environment;

- to create a powerful state coordinating Information and Analysis Center under the National Security Council of Ukraine or under the concern "UkrOboronProm".

### Conclusions

Thus, as a result of the conducted study, the following conclusions can be made.

The economic security of the state – is a condition of the economy and public institutions that stipulate guaranteed protection of national interests, harmonious and socially-oriented development of the country as a whole, sufficient economic and defense potential even under the worst scenario of internal and external processes.

The defense-industrial complex – is a collection of different companies and subordinations that fulfill or can fulfill a state defense order and participate or carry out the order within the military-technical cooperation with other countries.

In the light of negligence of issues of strengthening economic and military security in the course of European integration one should expect such distortions and deformations in Ukraine as: the discriminatory nature of bilateral relations between Ukraine and the EU; the distortion of the socio-economic structure of the country, and then - implementation of inefficiencies of economic, defense and monetary policy; false geopolitical orientation; decrease of national security in general.

In order to neutralize these threats, it seems appropriate:

- 1) To develop a "Concept of economic security of the defense industry of Ukraine" with regard to monetary, budgetary, financial and tax policy issues; to make currency reorientation of hryvnia with reference to a basket of currencies, including the euro (the predominant share), US dollar and the Japanese yen or the Chinese yuan to strengthen economic security;

- 2) To increase the share of gold in the volume of international reserves Ukraine, at least 10%.

So, for support of military and economic security of Ukraine first must be taken the following measures:

- to create a self-sufficient national military-industrial complex (MIC)

- to develop and adopt a national program for the production of weapons;

- to establish the national policy in the field of international trade of arms;

- to develop and adopt a law on arms export;

- to include in the state budget 2015-2016 the necessary funds for to defense financing;

- to create a closed cycle of arms and military equipment;

- to change the concept of conversion of MIC and to conduct it on a scientific basis in accordance with the national interests of Ukraine;

- to conduct consistent modernization of the Armed Forces of Ukraine and other military formations for achieving technical advantages over potential enemies;

- to create a unified infrastructure of logistics and technical support of the military organization of Ukraine.

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**Author:** MOMOT Tetiana Valerijivna  
Doctor of Economics, Professor  
O.M. Beketov National University of Urban Economy in Kharkiv  
E-mail – tvmomot@gmail.com

**Author:** AVANESOVA Nina Eduardivna  
PhD, Associate Professor  
Kharkiv National University of Construction and Architecture, Kharkiv  
E-mail – avanesova@i.ua

## **ПРІОРИТЕТНІ НАПРЯМКИ ЗМІЦНЕННЯ ЕКОНОМІЧНОЇ БЕЗПЕКИ ОБОРОННОЇ ПРОМИСЛОВОСТІ УКРАЇНИ В УМОВАХ ЄВРОІНТЕГРАЦІЇ**

Т.В. Момот, Н.Е. Аванесова

*Метою дослідження є визначення пріоритетних напрямків зміцнення економічної безпеки оборонної промисловості України в умовах Євроінтеграції.*

*Потенційна військова небезпека та реальні військові загрози для України мають надзвичайно різноманітні форми та набувають все більшої актуальності. Спроба нашої політичної еліти поставити на перший план загальнолюдські цінності, європейський вибір, успіхом не увінчалися, а призвели до послаблення позицій України у Європі та скороченню сфер її впливу. Важливу роль в даному аспекті відіграє і її позаблоковий статус.*

*Однією з найважливіших економічних проблем в Україні, починаючи з перших років її незалежності є зростання загроз економічній і, зокрема, оборонній безпеці України. Невирішеність проблем у цій сфері не дозволяє забезпечити відповідний рівень економічного зростання. Ускладнюється здійснення ефективної реструктуризації економічної безпеки оборонної промисловості, здійснює негативний вплив на зовнішньоекономічну, податкову, оборонну сфери та бюджетний процес нашої країни.*

**Ключові слова:** економічна безпека, оборонна промисловість, євроінтеграція, промисловість.

## **ПРИОРИТЕТНЫЕ НАПРАВЛЕНИЯ УКРЕПЛЕНИЯ ЭКОНОМИЧЕСКОЙ БЕЗОПАСНОСТИ ОБОРОННОЙ ПРОМЫШЛЕННОСТИ УКРАИНЫ В УСЛОВИЯХ ЕВРОИНТЕГРАЦИИ**

Т.В. Момот, Н.Э. Аванесова

*Целью исследования является определение приоритетных направлений укрепления экономической безопасности оборонной промышленности Украины в условиях евроинтеграции.*

*Потенциальная военная опасность и реальные военные угрозы для Украины имеют очень разнообразные формы и приобретают все большую актуальность. Попытка нашей политической элиты поставить на первый план общечеловеческие ценности, европейский выбор, успехом не увенчались, а привели к ослаблению позиции Украины в Европе и сокращению сфер ее влияния. Важную роль в данном аспекте играет и ее внеблоковый статус.*

*Одной из важнейших экономических проблем в Украине, начиная с первых лет ее независимости, является рост угроз экономической и, в частности, оборонной безопасности Украины.*

*Нерешенность проблем в этой сфере не позволяет обеспечить соответствующий уровень экономического роста. Затрудняется осуществление эффективной реструктуризации экономической безопасности оборонной промышленности, оказывает негативное влияние на внешнеэкономическую, налоговую, оборонную сферы и бюджетный процесс нашей страны.*

**Ключевые слова:** экономическая безопасность, оборонная промышленность, евроинтеграция, промышленность.