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FOREIGN TRADE BETWEEN UKRAINE AND THE EU

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The article examines the trends in the development of trade relations between Ukraine and the EU. The positive changes that have taken place in European-Ukrainian relations in recent years are outlined. The dynamics and structure of exports and imports of goods and services are analysed, and the trends that have occurred over the past five years are identified. The place of Ukraine in the structure of EU foreign trade is considered. It is revealed that the foreign trade turnover between Ukraine and the EU is affected by the war. The main problems that hinder Ukraine's integration into the EU trade system are summarised and recommendations for their solution are provided.

Keywords: EU foreign trade, European integration, Ukraine's trade relations with the EU, competitiveness, geospatial structure, product structure, partner countries

Introduction

The EU is an important trading partner of Ukraine. In line with the European integration course chosen by Ukraine, the volume of trade with European countries has been steadily increasing. Ukraine exports grain crops to the EU and has significant export potential in the agricultural sector, metallurgy, machine building, energy and other industries. However, the war with Russia has caused a number of logistical, financial, and technological problems that have significantly hampered the functioning of trade chains between Ukraine and the EU. As a result, the negative pressure on global and European markets increased, which worsened the food, agricultural, and energy security of the eurozone. Solving the problems of ensuring uninterrupted export supplies from Ukraine requires unconventional solutions and measures from the international community and is an urgent task for the current period.

Many scholars have analysed the development of trade between Ukraine and the EU. Michael Emerson has studied EU-Ukraine relations, trade policy and the Eastern Partnership initiative, which has led to a number of recommendations for the Ukrainian government on economic issues. Michael Emerson and Veronika Movchan provide a detailed analysis of the trends and factors of foreign trade between Ukraine and the EU (Emerson and Movchan, 2021). Oleksandr Ruzhynskas identified the directions of transformation of Ukraine's foreign trade policy in the context of the free trade agreement with the EU, and analysed the commodity and geographical structure of foreign trade, the degree of diversification and concentration of Ukrainian exports and imports (Ruzhynskas, 2022). Ilona Sologub explored in detail the stages of development of Ukraine's cooperation with the European Union in the field of trade, with a special focus on the impact of the war on Ukraine's foreign trade (Sologoub, 2022). Yatsenko O., Nitsenko V., Karasova N., James H.S.Jr., Parcell, J.L identified trends in the development of EU-Ukraine trade in agriculture and suggested ways to improve bilateral relations (Yatsenko et al., 2017). Maryna Rabinovych has studied in depth the effectiveness of the free trade area with the EU and its impact on the state of trade between Ukraine and the EU (Rabinovych, 2022). Svitlana Taran, Oleksandr Shepotylo, Pavlo Iavorskyi, Yevheniia Bondarenko analysed the trends and prospects of trade in goods between the EU and Ukraine. Based on a comparative analysis, the transformation of the dynamics of trade in goods, as well as the commodity structure of exports and imports, is described (Taran et al., 2022). In his paper, Oleksandr Moskalenko outlined the benefits of Ukraine's accession to the EU's common market (Moskalenko, 2023).

The article is aimed at analysing the peculiarities of Ukraine's trade development with the EU countries and the ways of its intensification in the conditions of war and the post-war period.

Material and methods

The choice of research methodology was based on the need to analyse trends and quantitative indicators of foreign trade development between Ukraine and Slovakia. To achieve this goal, a set of general scientific and special methods was used, namely: statistical analysis and graphical presentation of data to analyse export and import flows between Ukraine and the EU. Comparative and structural analysis was used to compare the commodity and geographical structure of trade flows by year. The analytical method was used to analyse measures aimed at supporting trade relations between Ukraine and the EU and to identify risks that impede trade intensification. The method of generalisation was used to formulate the conclusions of the study.

Results and discussion

Ukraine's geopolitical location creates unique opportunities for developing cooperation with the countries of the Euroregion. Its location in the centre of Europe gives it advantages in terms of land and sea routes. Strong domestic potential (scientific, technical, economic, mineral, soil and labour) creates conditions for a mutually beneficial international division of labour, cooperation, specialisation and integration of Ukraine into global value chains and the global economic space. Due to its geographical location, Ukraine, as the largest European country by territory, is attractive for the development of mutual trade. Ukraine's comparative advantages are mainly manifested in raw and semi-finished commodity groups, such as vegetable products, non-precious metals, mineral products, and fats and oils.

After Ukraine chose the EU integration course, a number of changes in its foreign trade policy took place, namely:

The transition to free trade intensified: Ukraine signed an association agreement with the European Union, which allows for the reduction of customs barriers and an increase in trade between the two countries.

Infrastructure development: Ukraine began construction of new ports, airports and railways, increasing its ability to trade internationally.

Improving the quality of export goods through the introduction of international standards: The development of exports of high value-added goods, such as information technology, aerospace, mechanical engineering, and others, intensified.

Development of e-commerce: Ukraine is actively working on development of e-commerce, which allows it to attract new customers and increase foreign trade.

Diversification of export markets increased: Ukraine began to work more actively to develop exports to countries that are not traditional partners, including China, Israel, Turkey, and others. This allows the country to expand its markets and dependence on individual countries.

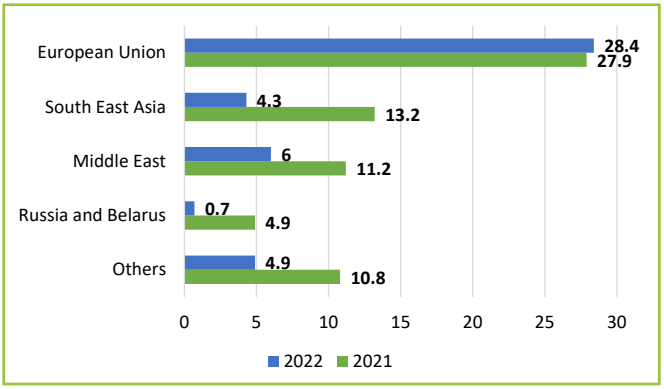

Figure 1 Geospatial structure of Ukraine's exports of goods by regions of the world (USD billion)
Source: State Statistics Committee of Ukraine

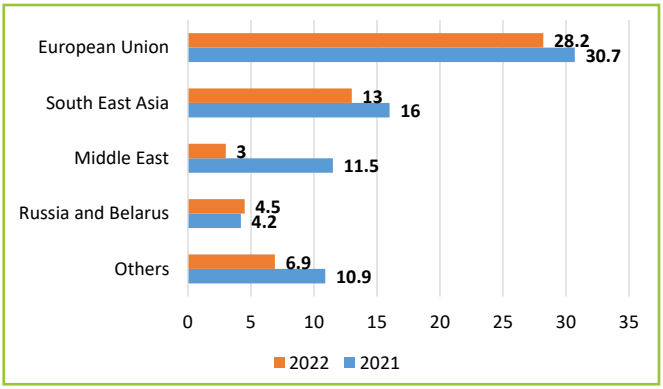

Figure 2 Volumes of imports of goods to Ukraine from the EU and other regions in 2021 and 2022 (USD billion)
Source: State Customs Service of Ukraine

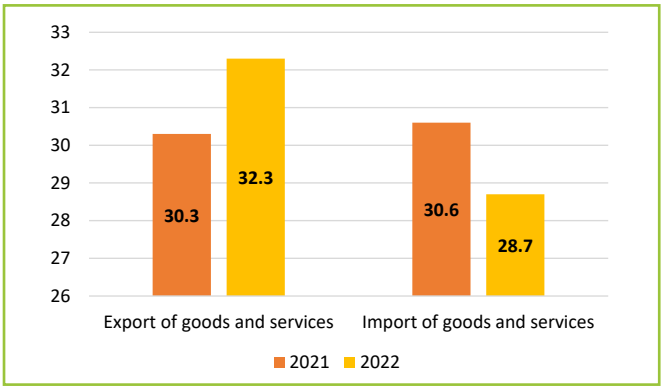

Figure 4 The volume of Ukraine's foreign trade with the EU in 2022 (USD billion)
Source: State Statistics Committee of Ukraine

Development of trade relations with Asia and Africa: Ukraine began to cooperate more actively with Asian and African countries, which is an important area of foreign trade development in the context of the changing global balance of power.

As a result, the EU's position as Ukraine's trading partner in exports has strengthened in recent years, while the share of CIS countries has declined (Figure 1).

Similar trends were observed in the structure of imports to Ukraine. Europe ranks first in terms of trade volumes, followed by Asia, and the Middle East. In 2022, the EU accounted for 28.2% of goods imported by Ukraine, while the volume of imports to Ukraine from other countries decreased (Figure 2).

European countries confidently hold leading positions in Ukraine's foreign trade structure. In 2022, Poland became the largest importer of Ukrainian products, displacing China, which had been in first place since 2019. Romania, which in 2021 was not among the top twenty consumers of Ukrainian products, moved to second place last year. The volume of exports of Ukrainian goods to selected countries is shown in Figure 3.

In 2022, the share of trade in goods and services with the EU amounted to 53.6% of Ukraine's total trade (in 2021 – 39.1%) (Figure 4).

From 2018 to 2021, Ukraine's foreign trade balance with the EU was negative, with the largest drop in trade in 2020 due to the COVID-19 pandemic.

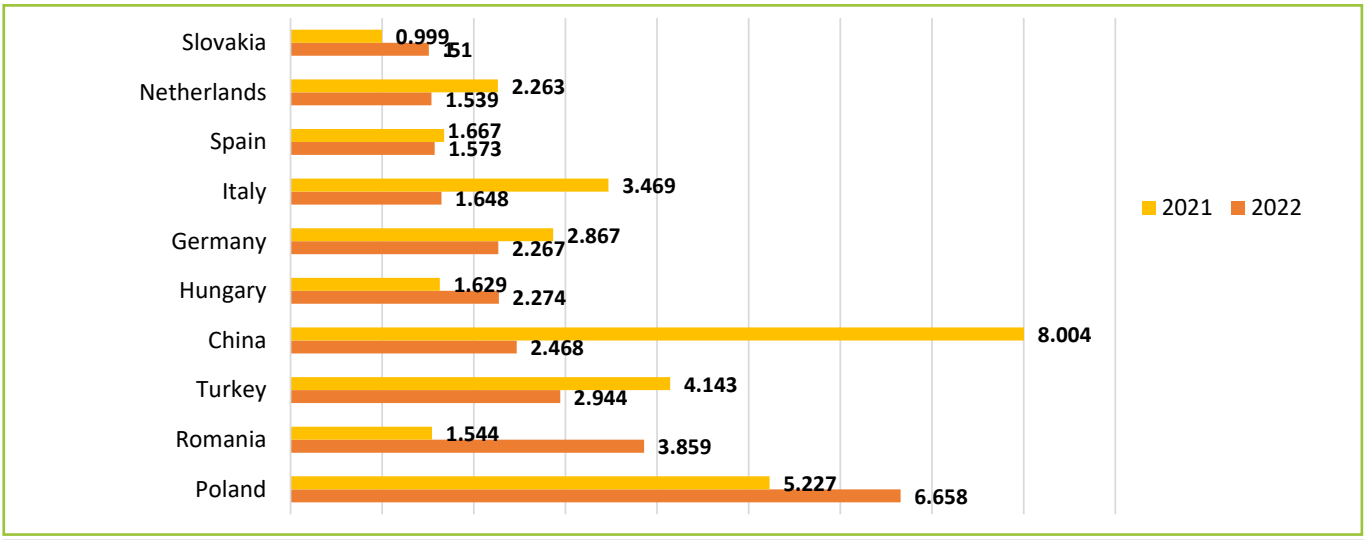

Figure 3 European countries – Ukraine's trading partners in exports of goods in 2021 and 2022 (USD billion)
Source: State Customs Service of Ukraine

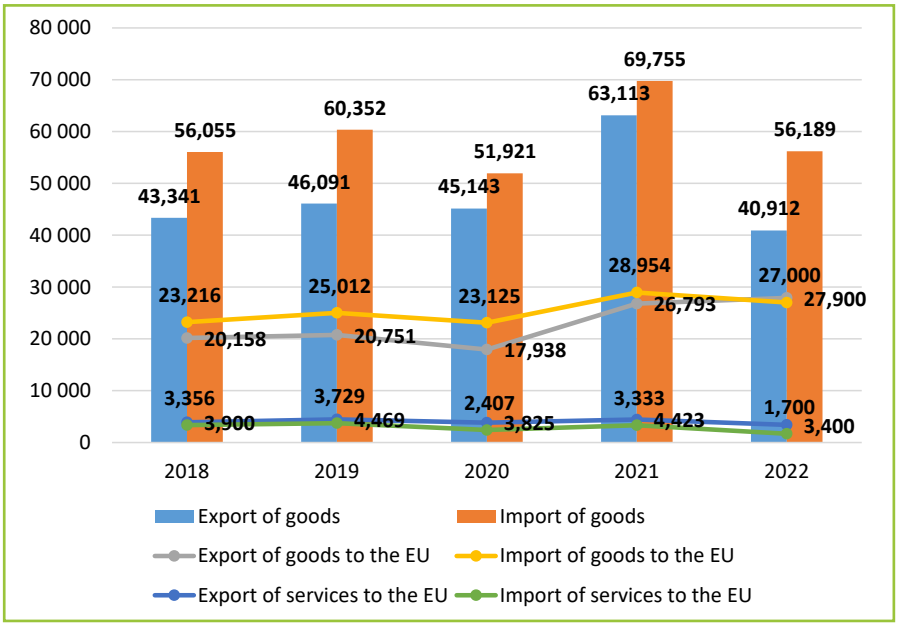

Figure 5 Total exports and imports of goods from Ukraine to the world and the EU in 2018–2022 (USD million)
Source: Balance of Payments of Ukraine

But in 2021–2022, exports and imports peaked. In trade with the EU, imports peaked in 2021 and exports in 2022, paradoxically in a time of war. In 2022, for the first time in many years, exports exceeded imports, leading to a trade surplus between Ukraine and the EU. This is to some extent due to a drop in industrial and consumer demand and a corresponding decrease in import needs amid the loss of a third of industrial potential and the emigration of almost 7.05 million people abroad.

The situation in foreign trade in services between Ukraine and the EU is somewhat different. Unlike trade in goods, the balance of trade in services with the EU has been mostly positive in recent years.

The trend of accelerated growth in Ukraine's exports and imports to the EU was reversed in 2020, when the COVID-19 pandemic led to a 10.88% decrease in services exports and a 28.96% decrease in imports compared to 2019. In 2021, the situation stabilised, with exports to Europe increasing by 66% in 2021 compared to 2018, exports of services reaching their highest level in the last five years and imports almost recovering to the level of 2018.

The year 2022 created specific dynamics in the development of foreign trade. Amid the hostilities, exports of services declined by 11%, mainly due to transport services, electricity, financial and other business services. The relatively small decline in services exports was due to the IT sector, as it was the only export industry that grew in 2022, so overall, services imports increased by 85.66%. Such trends reflect Ukraine's great potential for the EU in the field of digitalisation, despite its peculiarities as a country at war.

The Russian invasion has reduced Ukrainian exports to all sectors of the economy and changed their structure. Only the export of agri-food products declined relatively slightly (down 15.5%), but other sectors of Ukraine's export activity recorded a significant decline in sales: sales of metallurgical products fell by 62%, and minerals fell by 49%. In 2021, these two categories of goods accounted for 24% and 12% of Ukrainian exports, respectively (Matuszak, 2023). In 2022, the largest share in total exports was accounted for by products of plant origin (31%), fats and oils (13%), prepared foods (6%), mineral products (10%), and non-precious metals (14%).

The main groups of imported goods to Ukraine in 2022 were mineral products (24%), machinery, equipment and mechanisms (17%), products of the chemical and related industries (11%), and means of transport (10%). In addition, fuel imports from the EU increased in 2022 (until 24 February 2022, Ukraine imported most of these products from Russia and Belarus). In addition, the massive rocket attacks on Ukraine's electricity infrastructure, which have been ongoing since October 2022, have led to a sharp increase in imports of power generators.

A number of measures have been taken to support exports from Ukraine to the EU. In June 2022, the EU cancelled anti-dumping duties and tariff quotas for Ukrainian goods. This was a temporary measure introduced for a year. Many companies took advantage of the window of opportunity: some expanded their exports, while others discovered the European market for the first time. Duties and fees on Ukrainian goods were also cancelled, and "customs visa-free travel" and "transport visa-free travel" were introduced, which accelerated the transport of goods to the EU, Moldova and a number of other countries by cancelling transport permits and simplifying the declaration of goods, supporting Ukrainian exports and creating the basis for growth in the following periods.

The Solidarity Roads Initiative, launched by the European Commission in May 2022 to establish alternative routes for exporting Ukrainian agricultural products and importing essential goods in the light of the blockade of seaports, was of great importance. Today, it is also the only way to export other goods.

Currently, two logistics platforms are successfully operating under the Initiative, including: "EU-Ukraine Business Partner Search" and "Grain Routes", which facilitate the establishment of contacts along the supply chain and address the problems of transport shortages. At the same time, operational issues of the Initiative are addressed through a number of communication platforms, such as trilateral consultations between the European Commission, Poland and Romania, as well as the Ukrainian-Romanian customs working group established with the assistance of the European Union Advisory Mission.

The development and reformatting of some border crossing points on the border with Poland was important for the new form of export and import traffic. Equally important for the establishment of export and import flows during the war is the increase in the capacity of railway junctions along the entire border, which was achieved, among other things, by the development of transshipment complexes by businesses and the rapid increase in the production of trolleys for moving cars from wide to narrow gauge by JSC Ukrainian Railways.

Thanks to the implementation of these measures of the Solidarity Roads Initiative, Ukraine managed to increase the number and capacity of existing export and import gates, namely 20 road and 13 railway crossing points and 3 rehabilitated Danube ports, while 3 Black Sea ports were unblocked under the Grain Initiative (Europewb, 2022).

Thanks to these measures, it was possible to prevent a significant drop in trade between Ukraine and the EU, and to create a basis for further growth.

Conclusions

Thus, the war has revealed Ukraine's weaknesses and potential as an EU partner, especially after Ukraine became an EU candidate, and has spurred these processes. Further growth of mutually beneficial trade is possible if the problems that currently hinder the development of Ukraine's foreign trade are overcome:

- political and legal (war in Ukraine; imperfect legal framework, legal conflicts and instability of the regulatory framework (amendments to legislative acts, which leads to changes in the rules for doing business), high level of corruption and distrust in the state as a guarantor of fulfilment of agreements and contracts);
- organisational and managerial (complicated and non-transparent procedures for starting a business and registering foreign economic entities; insecurity and underdevelopment of Ukraine's domestic markets; lack of developed infrastructure, especially in the southern regions where ports for exporting goods are located, which consequently affects the speed and quality of transportation of goods and increases logistics costs; inefficiency of the foreign economic activity management system; lack of strategic and marketing approaches in business management);
- production (low competitiveness of most industries relative to similar ones in developed countries due to significant technical and technological backwardness, energy consumption, etc);
- financial (low investment attractiveness and unfavourable investment climate; low profitability of production activities, etc);
- marketing (barriers to entry into the markets of developed countries; high level of competition in global markets; insufficient product and market diversification of exports; ineffective sales policy abroad, etc);
- labour (unfavourable demographic situation in the country; lack of qualified personnel; outflow of qualified specialists and workers to countries with higher levels of development and higher wages; low labour productivity, etc.) (Dykha and Lyamets, 2021).

To improve and stabilise Ukraine's trade relations with the EU, a number of measures need to be taken. The recommendations of the Paris Report No. 1 can serve as a basis (Horodnichenko, Sologub and Veder di Mauro, 2022):

- to implement the existing opportunities of the EU-Ukraine Association Agreement. For example, the conclusion of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and mutual recognition of food equivalence. The Association Agreement also provides for the conclusion of special transport agreements, which should enable the replacement of the temporary wartime agreement on road transport with a long-term agreement that will open up access to the EU market for Ukrainian carriers;
- to join the latest EU sectoral initiatives. For example, Ukraine is interested in joining the EU's Digital Single Market and participating in the implementation of the EU's Green Deal,
- to conclude further free trade agreements with a focus on countries with which the EU has FTAs or is negotiating. These could include, for example, Morocco, Tunisia and Algeria. Other potentially promising FTA partners are South Korea, India and Indonesia;
- to complete fundamental reforms related to the rule of law and the protection of property rights;
- introduce new risk insurance schemes. In anticipation of post-war tensions, or at least the risk of further tensions, a multi-donor fund will be needed to cover non-economic risks for foreign investors;
- to develop quality assurance infrastructures, including the restoration of laboratories and other specialised facilities that were damaged by the full-scale war, the creation of new facilities and the capacity building of Ukrainian civil servants in areas related to quality control;
- improve transport and logistics links between Ukraine and the EU by all modes of transport. This requires the development of intermodal transport hubs in Ukraine.

Particular attention should also be paid to the digital transformation of Ukraine's foreign trade sector. Examples of successful use of digital technologies to improve trade policy and data accumulation in Ukraine include the Single Window for International Trade and the introduction of the status of an authorised economic operator. The Single Window mechanism ensures high-quality control over the compliance of companies with legal requirements, prompt exchange of information between customs, companies and government agencies, combating corruption, and simplifying foreign economic activity.

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