

INTERNATIONAL ECONOMIC RELATIONS OF UKRAINE AND THE EU**Kateryna Slyusarenko**

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Abstract. Foreign trade relations between Ukraine and the EU are developing under the terms of the Association Agreement coming into force. The article presents both positive and negative sides. The dynamics of foreign trade between Ukraine and the EU countries is analyzed, Ukraine's export and import structure is represented, as well as the proposed priorities of the development of foreign economic relations between Ukraine and the European Union.

Keywords: foreign trade relations, Association Agreement, EU, economics.

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Introduction

Modern foreign trade relations between Ukraine and the EU are developing under the terms of the Association Agreement coming into force. In accordance with its provisions, the parties assumed the obligation to abolish most of the import duties in bilateral trade during the transitional period that will last for seven years (until 2023) and for ten years for Ukraine (by 2026). At the end of the transition period, the EU will abolish customs duties for Ukrainian producers for 95.8% of product groups. The Ukrainian side will eventually cancel duties for 96,5% of product groups.

The process of mutual opening of markets was asymmetric: the EU side immediately lifted duties for 94,7% of the tariff lines of industrial production and 82,2% of tariff lines of agricultural products, while Ukraine still introduced a preferential regime for only 49,2% products according to the entire product range. Correspondingly, there were changes and proportions in the level of tariff protection between the parties: the average arithmetic rate of import duty on European products in Ukraine decreased from 4,95% to 2,42%, while from the EU side - from 7,6% to 0,5%. At the end of the 10-year transition period, Ukraine will retain residual import duty levels for 8.7% of agricultural products, which will eventually give it somewhat higher level of tariff protection.

Table 1

The dynamics of foreign trade liberalization between Ukraine and the EU in accordance with the provisions of an in-depth and comprehensive free trade area

Average arithmetic import duty rates, %						
Commodity groups	Base rates (before the agreement comes into force)		Right after the agreement comes into force (2016)		At the end of the ten-year transition period (2026)	
	Ukraine	EU	Ukraine	EU	Ukraine	EU
According to the entire product range	4,95	7,6	2,42	0,5	0,32	0,05
Agricultural products (group HS 01-24)	9,24	19,8	6,77	0,6	1,38	0,24
Industrial products (group HS 25-97)	3,67	3,9	1,12	0,5	0,00	0,00

Mentioned changes in the tariff regulation of bilateral trade between Ukraine and the EU directly influenced the dynamics of flow of goods and services between them. The share of EU countries in Ukraine's foreign trade turnover increased from 37,5% in 2015 to 39,7% in 2016 and to 39,2% in the first quarter of 2017. At the same time, the tendency to narrow the gap between export and import supplies - the coefficient of coverage of imports by exports increased from 0,67 in 2013 to 0,88 in 2015 and to 0,91 in the first quarter of 2017.

In the structure of exports of Ukrainian goods to the EU prevail iron (22,9%), cereals (11,2%), electrical equipment (9,2%); on the contrary, import of goods from the EU to Ukraine is largely diversified with vehicles, equipment and chemicals dominating.

As of 01.04.2017, foreign direct investments in the amount of USD 26,7 billion came to the economy of Ukraine with the EU, which accounted for 70,1% of all FDI attracted. Major volumes of investments came from Cyprus (9,7 billion) and the Netherlands (6,2 billion). Significant volumes of investments came from Great Britain (almost 2,0 billion), Germany (1,7 billion), France (1,3 billion), Austria (almost 1,3 billion) and Luxembourg (0,97 billion).

At the same time, on the way of further development of foreign economic relations of Ukraine with the EU countries there are a number of obstacles that limit the potential of economic growth of the parties. There are still a number of tariff and non-tariff barriers in trade between Ukraine and the EU. In particular, the EU side has tariff quotas for 36 groups of agricultural commodities, import duty rates outside the barrier level. It should be noted that in the conditions of the need to overcome the raw material orientation of the Ukrainian economy, the restriction on export of agricultural raw materials in the form of tariff quotas does not constitute a strategic obstacle to the development of its trade and economic relations with the EU countries, but clearly hinders the achievement of short-term goals of reorientation of domestic producers from lost markets in the fields of Eurasian Economic Union.

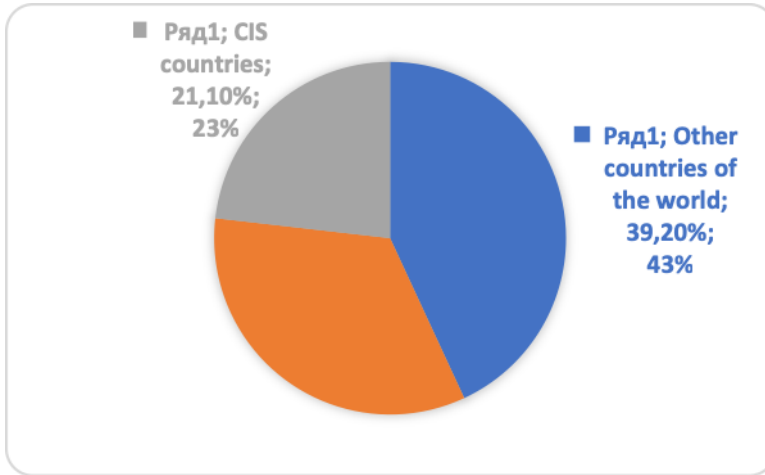


Fig. 1. EU countries in the foreign trade turnover of Ukraine (2016)

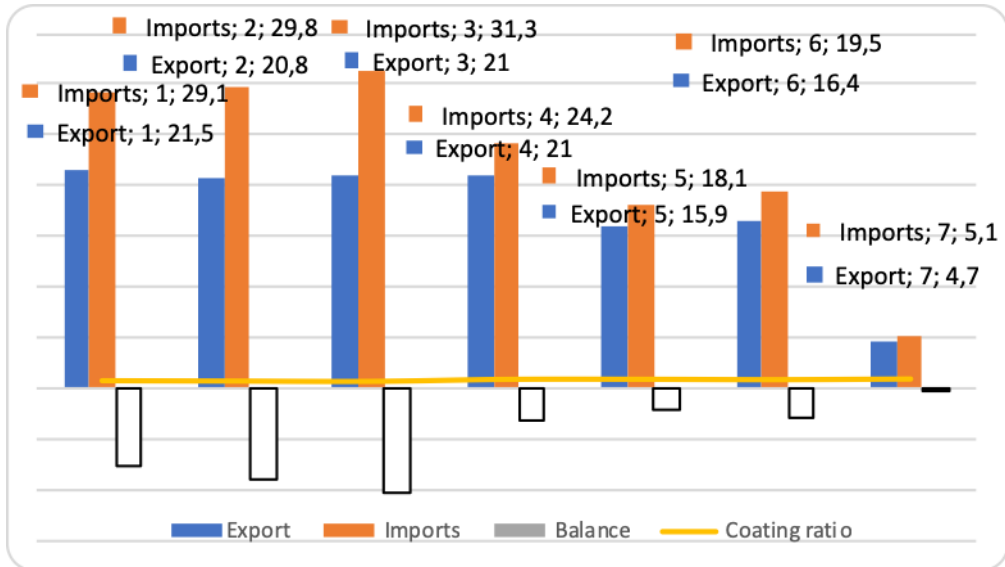


Fig. 2. Dynamics of Ukraine's Foreign Trade with the EU in 2011 - 2016

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of domestic producers from lost markets in the fields Eurasian Economic Union (Izmaylov, Slyusarenko, Sheludiakova, 2017).

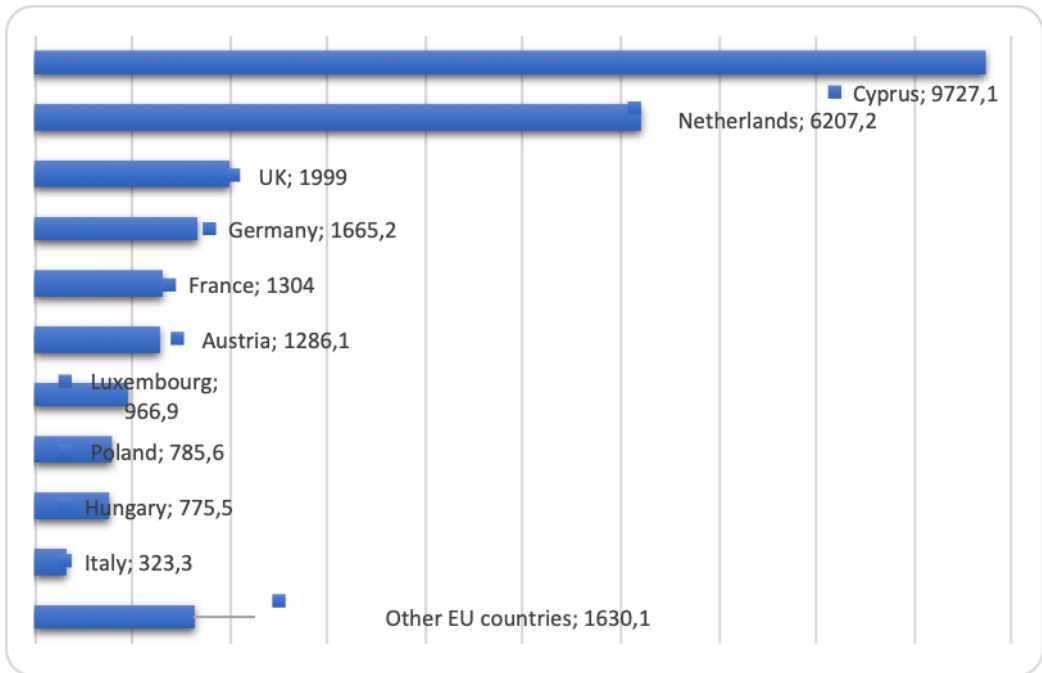


Fig. 3. FDI in the economy of Ukraine (01.07.2017) mln

Source: USD (*International Economic Report, 2017*)

However, the technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) are considerably the impediments for domestic producers to access the European market. Adapting to the requirements of the quality and safety of products provided by these TBTs and SPSs is a complex, lengthy and costly process that blocks access to European markets for most potential Ukrainian suppliers. For example, the output of domestic poultry producers to the EU market lasted for five years. As a result, despite the duty-free tariff quotas provided, the European market for dairy products, lamb, pork and beef remains de facto closed to producers from Ukraine. In the course of the 3,5 years of these quotas (starting in April 2014), exports to the EU by the above-mentioned product groups did not start.

Import duties on the transition period of the Association Agreement continue to operate on the Ukrainian side, which among other things, complicates the access of domestic producers to innovative equipment from the EU countries. Therefore, early cancellation of import duties on innovative equipment, provided that it is accompanied by investment projects for the modernization of the Ukrainian industry, will have a positive effect on the economies of both sides, confirming the results of economic and mathematical modeling in the Global Trade Analysis Project (GTAP) system.

Along with the existing barriers of tariff and non-tariff character, the access of domestic producers into EU markets greatly complicates the restrictions associated with access to financial resources. Interest on export credits, as well as the cost of export insurance

in Ukraine, is much higher than in the EU, which puts many Ukrainian producers in clearly uncompetitive conditions compared to European ones. Moreover, there are national state agencies operating in the EU countries that provide preferential terms for obtaining export credits, insurance and export guarantees - Export Credit Agencies (ESAs). These include Euler Hermes in Germany, COFACE in France, and ECGD in the UK. The corresponding institutions have been established in the countries of Eastern Europe, for example, in the Czech Republic, Poland, Hungary, Bulgaria, Lithuania, Estonia.

The role played by ESA in the development of international trade is steadily growing, as evidenced by the strong growth in profits and the scale of the work of leading ESAs. So, Euler Hermes covers risk management processes on five continents and has subsidiaries and representatives in 54 countries. The concluded treaties of insurance of credit risks provide coverage of deliveries of goods and services in 245 countries. ECA employs more than 6,000 employees, serving around 52,000 clients. The net profit of the company is steadily increasing and currently reaches about 500 million euros a year, and equity capital – 2,5 billion euros.

Taking into account the lack of appropriate mechanisms for state support for insurance and financing of exports in Ukraine, domestic exporters operate in conditions of unequal competition in international markets for goods and services. And taking into account the peculiarities of the current state of the economy of Ukraine where due to the limited solvent demand in the domestic market, the supply of goods and services for export is almost the only means of developing Ukrainian enterprises, the need to create appropriate institutional and financial support for the effective realization of the export potential of Ukraine through the launch of an effective ECA is gaining importance.

The above is confirmed by the calculations in the GTAP system, according to the results of which the launch of work in Ukraine of its own ESA in accordance with the provisions of the Law of Ukraine "On ensuring the large export expansion of Ukrainian producers through insurance, guarantee and cheapening export lending" No.1792-VIII of 20.12.2016 the growth of domestic GDP by 0,91%. This will be primarily due to an increase in total exports by 9,64% and industrial production - by 2,77%. Expected inflow of investments in expansion of industrial production will make 1,97 billion US dollars. The development of the industrial sector will lead to overall welfare growth, which will increase the domestic market. Due to this the sale of domestic production in the domestic market will increase by 1,31%.

An equally important problem in the development of Ukraine's foreign economic relations with the EU remains the problem of over-complexity and burdensome nature of customs procedures in domestic practice. There are a lot of urgent issues in Ukraine dealing with export-import operations, and the current practice of their organization on the part of authorized state bodies is extremely far from the experience of developed countries. According to the results of Doing Business 2017, the duration of export operations in Ukraine is 122 hours, and the cost of processing documents for export is 367 US dollars. With import operations, the situation is even more complicated - they last about 240 hours and require the issuance of documents for 312 US dollars. For comparison, it should be noted that the average duration of foreign trade operations in most EU countries does not exceed 1 hour, and the associated excess costs are absent at all.

Therefore, the effectiveness of state bodies regulating export and import procedures has a direct impact on exports. The complex state permitting system and the cloudy structure of state control over export-import operations largely act as a limiting factor for the development of international trade. Excessive bureaucracy in the field of foreign economic activity leads to

a sharp increase in transaction costs in foreign trade. As a result, transaction costs in Ukraine amount to 40% of the value of foreign trade transactions, while in the EU countries they make up 3-5%. Excessive transaction costs in international trade as a result of ineffective work of customs authorities, excessive bureaucratization of customs clearance procedures, delays in supplying products abroad or a significant corruption component, lead to irreversible losses for the national economy, reducing revenues and international business competitiveness and increasing final-user costs.

In view of these problems, it is expedient to highlight the following priorities for the development of Ukraine's foreign economic relations with the EU:

- Implementing a comprehensive strategy for the implementation of Chapter IV (Sanitary and phytosanitary measures) of Section IV "Trade and Trade-related Issues" of the Association Agreement between Ukraine and the European Union;
- Creation of a system of financial support for Ukrainian exports to the EU countries, including the launch of ECA to provide preferential credit, insurance and guarantee of export supplies to European markets;
- creation of mechanisms for increasing the efficiency and transparency of customs clearance and other procedures in the field of customs control, in accordance with Ukraine's obligations under the WTO Agreement on Facilitation of Trade Procedures;
- opening of Ukrainian trade missions in the EU countries in order to intensify long-term trade and economic relations between representatives of Ukrainian and European businesses;
- Stimulating the development of innovation within the framework of implementation of the international programs Horizon 2020, COSME / EEN and the European Grid Infrastructure.

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