

Economic Sciences

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UKRAINE AND THE EU: ISSUES OF ECONOMIC INTEGRATION AND DEVELOPMENT OF TRADING ACTIVITY

Summary: In the article main economic indicators of trading activity of Ukraine are considered. Based on the trading activity's analysis of Ukraine with the EU problems for its development within the Association Agreement are outlined. Energy sector of Ukraine is determined as of great importance to develop within the Association Agreement either for trade in energy resources or providing reforms.

Key words: *economy, integration, development, the Association Agreement, trade, trading activity, energy sector.*

Ukraine's integration into the world economy plays an important role in the development of the state. Deepening regional integration with the EU in different directions is aimed to creation of more opportunities for trade liberalization and, therefore, economic development.

With the signing and ratification of Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part [1] (the Association Agreement) Ukraine started a new stage of its development of movement from partnership and cooperation to political

association and economic integration. According to the Association Agreement it covers five aspects of cooperation, including strengthening of economy and establishing trade relations, especially in such important for Ukraine spheres as trading activity in commodities and energy cooperation.

Being one of the biggest countries in Europe Ukraine remains one of the smallest trade partners of the EU. The armed conflict in the east of Ukraine in 2014 has led to dramatically decrease in the countries' GDP and slowed down previously marked positive tendency in it (fig. 1).

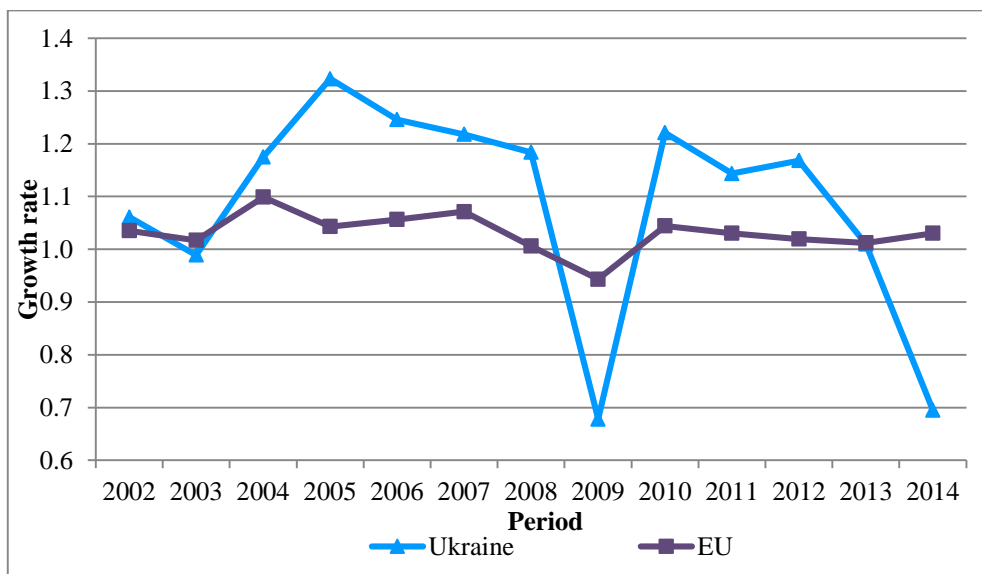


Figure 1. GDP growth rate in Ukraine and in the EU in 2002-2014

Calculated and built based on [5; 9]

It is seen from fig. 1 that comparing to stable improvement in the EU's GDP growth rate Ukrainian one hit the bottom in 2014 – deepest for the last 13 years. After the world economic crisis of 2008 the EU's GDP growth rate reached 1,03-1,04 in 2011-2014 while Ukrainian promised to be higher in 2013-2014 because of 14% and 17% growth rate in 2011 and 2012 respectively, but backward steps in implementation process of the Association Agreement in autumn 2013 and subsequent economic-political crisis resulted in only 1% of

Ukrainian GDP growth in 2013 and its significant drop in 2014.

In general, GDP is an indicator for a nation's economic situation. It reflects the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production [10]. Expressed in current prices GDP reflects volume and price movements [14, p. 21].

As far as Ukrainian economy is comparable to only two economies within the EU – the Czech Republic's and Romania's ones, fig. 2 presents dynamics of Ukrainian GDP (in current prices) and of mentioned countries' GDPs during 2002-2014.

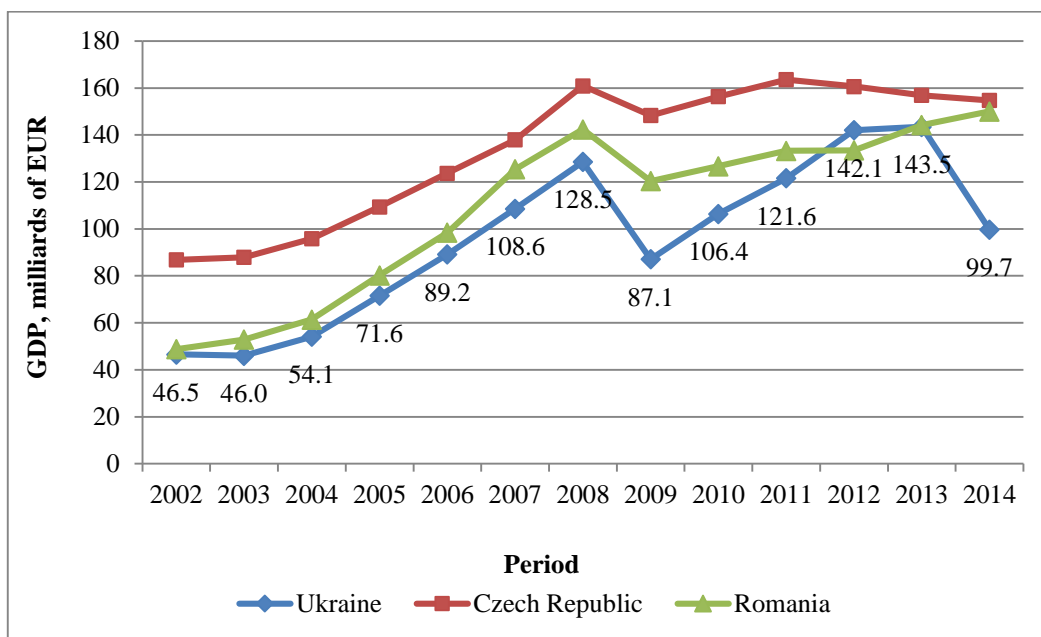


Figure 2. Dynamics of GDP of Ukraine, Czech Republic and Romania in 2002-2014

Calculated and built based on [5; 9]

It is obvious that in 2002 Ukrainian and Romanian GDPs were considerably close and both economies demonstrated confident growth in their GDPs in 2003-2008 (fig. 2). Although Romania joined the EU in 2007 it helped a little bit to alleviate consequences of the world economic crisis of 2008 and

Romanian GDP in 2009 declined by almost 15% while Ukrainian dropped by 32%. In reference to the Czech Republic's GDP one can note that its growth was slowly that of Romanian and Ukrainian in 2003-2008, and even demonstrated the dip during 2011-2014, so Romanian GDP in 2014 nearly overtook the Czech's one. Ukrainian GDP also accelerated after 2009 and it was extremely close to Romanian one in 2013 (fig. 2). It should be noted that Romania's GDP consisted only 1,1% of total EU's GDP whereas the biggest economies of the EU comprise 64% of it (Germany – 20,9%, United Kingdom – 16,2%, France – 15,3%, Italy – 11,6%) [9]. Unfortunately economic instability influences badly on external trade.

Trade opportunities of each country also depend on their GDP volume, including the structure of gross value added that determine structure of exports and imports to certain extent. Gross value added is the value of output less the value of intermediate consumption. It is an additive measure of the contribution of each economic unit to GDP [13, p. 27]. So, the activities that include gross value added are classified as following: agriculture; industry (mining, manufacturing, electricity, gas, steam and air conditioning supply, construction and others); services (distributive trades, transport and storage, accommodation and food services, information and communication, financial activities, real estate, business services, and others) [13, p. 59; 14, p. 24]. Fig 3 shows contribution of each activity – agriculture, industry, construction and services – in Ukraine's gross value added.

As fig. 3 shows, the general trend in gross value added distribution of Ukraine for the period 2005-2014 demonstrates decrease of industry and construction shares and increase of agriculture and services shares. For example, in 2005-2007 the share of industry in gross value added was approximately 30% and the share of construction grew by 2007 up to 5% while agriculture's share decreased from 10% to 7%. At the same time the share of services increased by almost 3% and made 58%. Such structure with predominance of services in

gross value added than industry is detrimental for the county's economy, especially if services consist preliminary of distributive trades. That also constrains trading opportunities for the country.

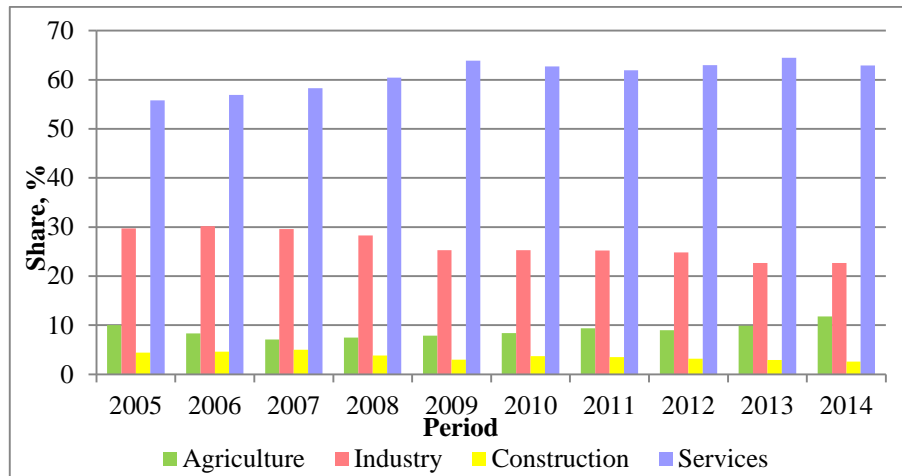


Figure 3. Structure of gross value added of Ukraine in 2005-2014

Calculated and built based on [4]

The structure of Ukraine's total industry products sold in 2014 [15] composed on 67,7% of processing industry, 18,2 % of energy, gas, steam, and conditioned air supply, and on 12,8% of mining industry. And considering more specific kinds of economic activity, the biggest share in 2014 belonged to food industry – 21,3%, the second was metallurgical industry with 19,0%, and the third – energy production and distribution – 14,1%. By the way, coal mining as one of the problematic activities for Ukraine in 2014 composed only 3,2% in total industry products sold, and oil and gas extraction – 2,6%.

In general, energy industry plays an important role in Ukrainian economy. Having considerable potential in its development Ukraine has a chance to use it within the Association Agreement and to integrate successfully its energy industry into the EU's one.

Considering imports and exports it is to be noted that there are the following features concerning imports and exports statistics of the EU. First,

imports into a given country include: goods that enter the statistical territory of the country from another country and are: placed under the customs procedure for release into free circulation, either immediately or after a period in a customs warehouse; or placed under the customs procedure for inward processing or processing under customs control either immediately or after a period in a customs warehouse; some movements of goods are included in statistics based on specific conditions: aircraft and ships whose ownership has been transferred from a person established in a non-member country to a person established in the country in question are included in import statistics of this country [14, p. 57]. Exports from a given country include: goods that leave the statistical territory of the country bound for another country after having been placed: under the customs export procedure; or under the customs outward-processing procedure (usually goods destined to be processed for subsequent re-import); some goods movements are included in statistics based on specific conditions [14, p. 57].

Fig. 4 presents dynamics of imports and exports of goods of Ukraine in 2002-2014.

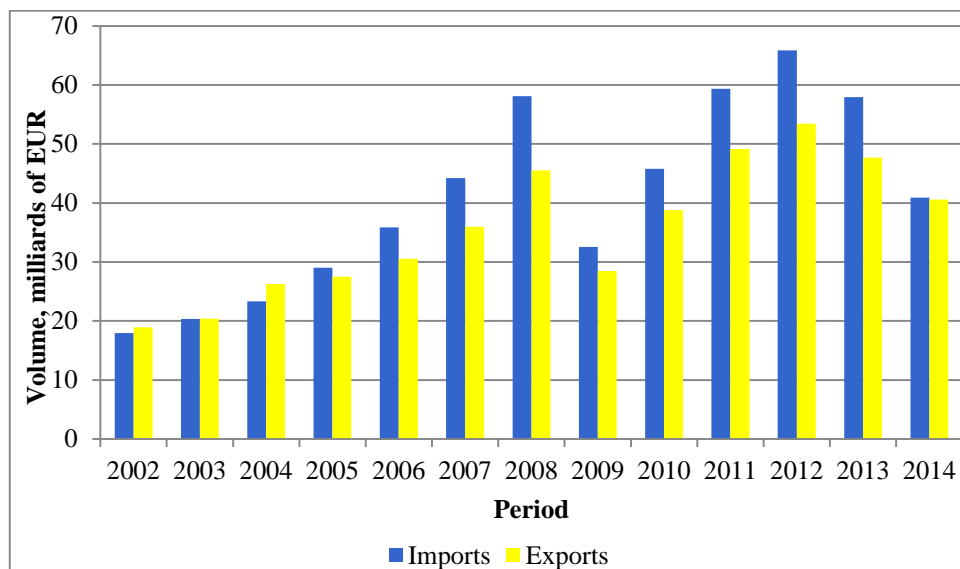


Figure 4. Values of exports and imports of Ukraine in 2002-2014

Calculated and built based on [6]

As it is seen from fig. 4 in 2002-2004 Ukraine had positive trade balance that in general had a positive influence on Ukrainian economic development, and since 2005 – negative, so its imports exceeded its exports, though in 2014 Ukraine’s trade balance almost flattened. The trade recovery after 2009 reached a peak in 2012 when volumes of exports (53,5 milliards of EUR) and imports (65,9 milliards of EUR) exceeded their maximums in 2008. In general, the volume of Ukraine’s imports and exports doubled in 2014 compared with 2002, but compared to 2012 the exports decreased by 25% and the import – by 38%.

As concerns trade relations with the EU in 2014 they changed to a very little degree in the sphere of exports and significantly – in the sphere of imports. Fig. 5 shows the volume of Ukraine’s imports and exports with the EU countries in 2002-2014 and tab. 1 – analysis of its dynamics in 2012-2014.

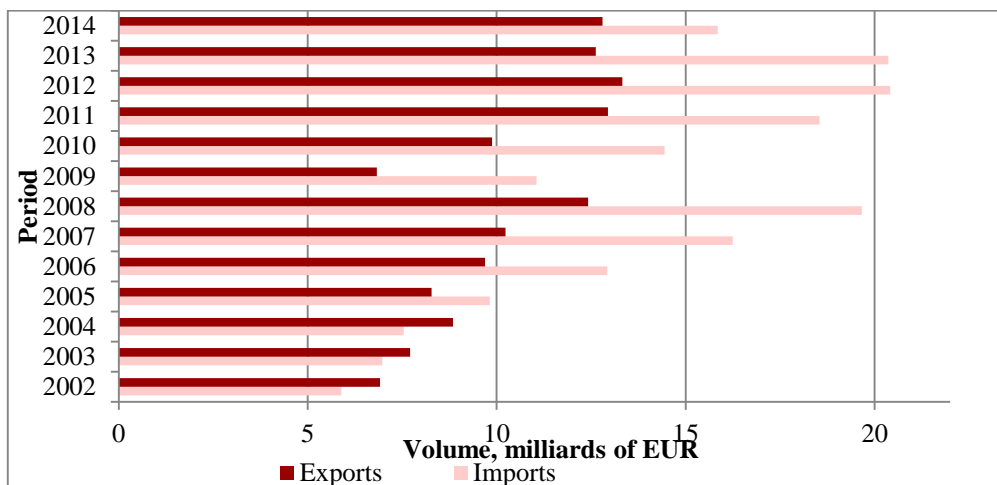


Figure 5. Ukraine’s value of imports from and exports to the EU countries in 2002-2014

Calculated and built based on [7]

Dynamics of Ukraine’s trade with the EU in 2002-2014 is slightly different from general trade situation. For example, the volume of exports for the period 2011-2014 varied insignificantly and was within the scope of 12,6-13,3 milliards of EUR, while imports have fallen down from 20,4 milliards of

EUR in 2012 (following the increase from 18,5 milliards of EUR in 2011) to 15,9 milliards of EUR in 2014. Ukraine's trade balance in 2002-2004 with the EU was also positive and in 2005-2014 – negative, but in 2014 unlike the general trade balance it was far from the balancing point (tab. 1).

Table 1

Dynamics of Ukraine's trade balance with the EU countries in 2012-2014 (in millions of EUR)

№	Indicator	2012	2013	Absolute change, M EUR	Relative change, %	2014	Absolute change, M EUR	Relative change, %
1	Imports	20 414,3	20 365,1	-49,2	-0,2	15 852,2	-4 512,9	-22,2
2	Exports	13 326,3	12 620,8	-705,5	-5,3	12 801,4	180,6	1,4
3	Trade balance	-7 088,0	-7 744,3	-656,3	9,3	-3 050,8	4 693,5	-60,6

Calculated and built based on [7]

Although Ukraine had negative trade balance with the EU in 2014, it reduced the trade gap from 7,7 milliards of EUR in 2013 to 4,7 milliards of EUR in 2014 or almost by 60% (tab. 1). At the same time Ukraine decreased imports from the EU by 22% and increased export to the EU by 1,4% in 2014. In general, the share of the EU in Ukrainian imports and exports increased for the previous three years – 2012-2014 by 7,7% and 6,6% respectively [7].

It should be noted that that the EU remains one of the major trade partners of Ukraine with its share more than 30% though the share of exports to the EU in 2014 exceeded 30% for the first time since 2006 [7]. Noticeably that the share of Ukrainian exports to the EU was the largest in 2003 when it made 37,8% and the share of imports – in 2014 (38,7%).

As a whole, the share of Ukraine in the EU exports in 2014 was 0,93% (alongside with significant fall in volumes of imports from EU) – the lowest value since 2004, especially comparing to 1,5% in 2008 and rising trend in 2010-2012 (fig. 6).

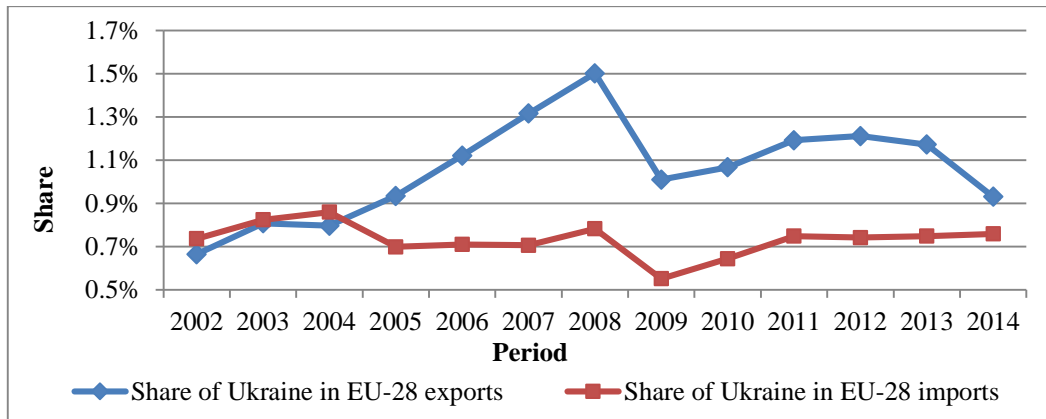


Figure 6. Share of Ukraine in the EU exports and imports in 2002-2014
 Calculated and built based on [7; 11]

In contrary to the share of Ukraine in the EU import the share of Ukraine in the EU export increased from 0,55% in 2009 to 0,76% in 2014 but it did not reached the share of 2004 when it was 0,86%. On the other hand, there is a stable growth by 0,01% in share of Ukraine in the EU import starting from 2012, and the AA/DCFTA should contribute to further increase of Ukrainian export to the EU.

The structure of Ukraine’s exports to the EU in 2008 and 2014 in accordance with the Standard International Trade Classification (SITC) [2; 12] is presented on fig. 7-8.

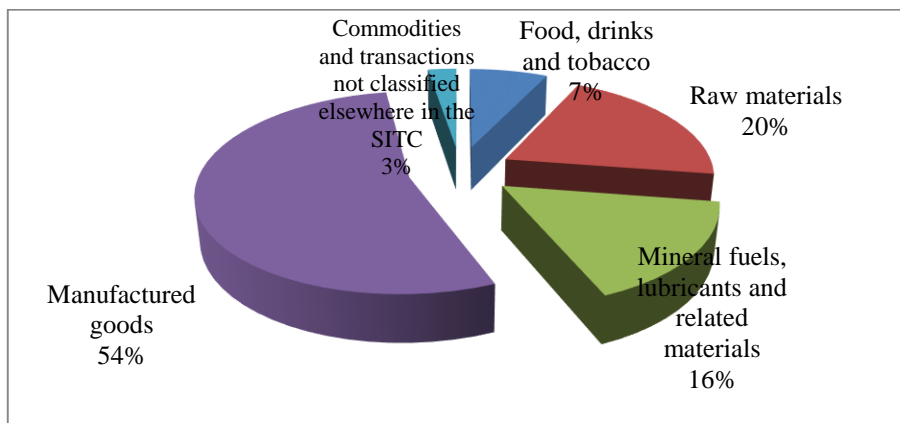


Figure 7. Structure of Ukraine’s exports to the EU countries by SITC product group in 2008

Calculated and built based on [8]

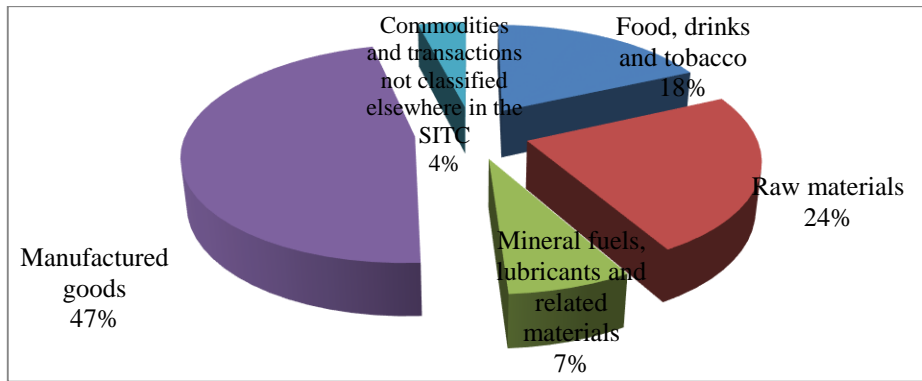


Figure 8. Structure of Ukraine's exports to the EU countries by SITC product group in 2014

Calculated and built based on [8]

According to fig. 7 and 8 the largest share in Ukraine's exports to the EU belonged to manufactured goods – 47% in 2014 that is less than in 2008 by 7%. At the same time the share of food, drinks and tobacco considerably increased for six years by 11% and made 18% in 2014, the share of raw materials also rose – by 4% up to 24% in 2014. It is to be noted, that such structure of Ukrainian exports is quite favourable, because of the predominance of manufactured goods over raw materials and mineral fuels, lubricants and related materials (fig. 7-8). More detailed analysis of Ukrainian export to the EU is presented in tab. 2.

As presented in tab. 2 there was slight decrease in Ukrainian exports to the EU in 2014 compared to 2013 – only by 1,1%. And the most significant changes in 2014 Ukrainian exports' structure to the EU was due to decrease in raw materials exports that made 15,3% or 322,0 milliards of EUR, at the same time there was an increase in food exports – by 13,3% or 294,0 milliards of EUR. There was also slight rise in the volume of manufactured goods in 2014 – by 15,3 milliards of EUR or 0,2% preferably due to increase of machinery and transport equipment exports. As for manufactured goods classified chiefly by material (including lather, rubber, cork and wood manufactures, paper, textile yarn, fabrics, non-metallic mineral manufactures, iron and steel, non-ferrous metals, manufactures of metals) its volume in 2014 was only 1,8% or 68,9

milliards of EUR lower than in 2013 (tab. 2).

Table 2

Dynamics of Ukraine's exports to the EU countries in 2012-2014 by SITC product group (in millions of EUR)

№	Indicator	2012	2013	Absolute change, M EUR	Relative change, %	2014	Absolute change, M EUR	Relative change, %
1	Food, drinks and tobacco	2387,4	2207,5	-179,9	-7,5	2501,5	294,0	13,3
2	Raw materials	3674,1	3559,0	-115,1	-3,1	3237,0	-322,0	-9,0
3	Mineral fuels, lubricants and related materials	1489,8	1118,2	-371,6	-24,9	997,7	-120,5	-10,8
4	Manufactured goods	6610,8	6429,1	-181,7	-2,7	6444,4	15,3	0,2
5	Commodities and transactions not classified elsewhere in the SITC	480,7	568,5	87,8	18,3	549,0	-19,5	-3,4
	Total	14642,8	13882,3	-760,5	-5,2	13729,6	-152,7	-1,1

Calculated and built based on [8]

The structure of Ukrainian imports is a little bit different from its exports (fig. 9-10).

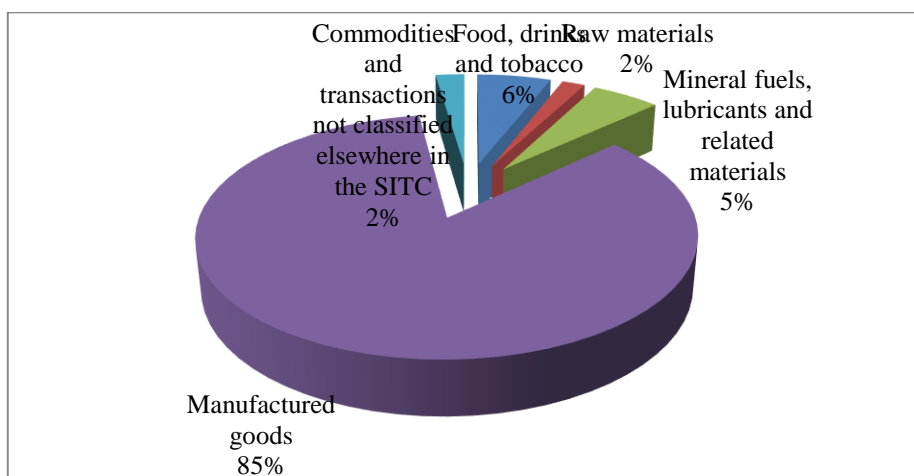


Figure 9. Structure of Ukraine's imports from the EU countries by SITC product group in 2008

Calculated and built based on [8]

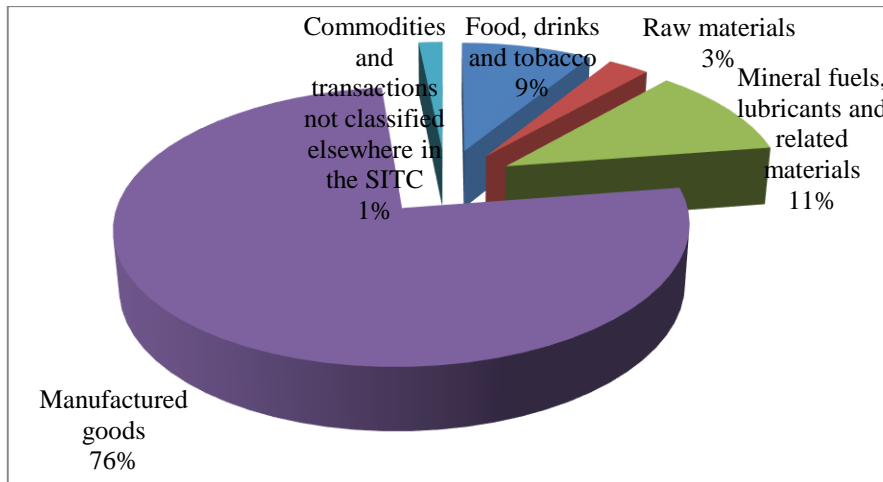


Figure 10. Structure of Ukraine's imports from THE EU countries by SITC product group in 2014

Calculated and built based on [8]

According to fig. 9 and 10 the largest share in Ukraine's imports from the EU in 2014 belonged as well as in exports – to manufactured goods, but it was larger than in exports and was 76%, that is lower than in 2008 when it was 85%. At the same time the share of mineral fuels, lubricants and related materials increased by 6% from 5% in 2008 to 11% in 2014; the share of food, drinks and tobacco slightly increased for six years – by 3% and made 9% in the imports structure of 2014, the share of raw materials also rose – by 4% up to 24% in 2014. More detailed analysis of Ukrainian imports from the EU is presented in tab. 3.

It is clear from tab. 3 that the greatest influence on Ukraine's import from the EU exerted the drop in imports' volume of manufactured goods that decreased by 30,3% or by 5602,7 milliards of EUR, considering the overall decrease in imports from the EU by 6911,4 milliards of EUR decrease in manufactured goods made 81%. At the same time there was significant decrease in other product groups, for example, the volume of food and chemicals declined by almost 20%, raw materials – by 22%, mineral fuels – by almost 25%, and the most significant drop by 40% was in machinery and transport equipment among

manufactured goods [8], and commodities and transactions not classified elsewhere in the SITC (postal packages, special transactions and commodities, coin (other than gold coin), gold, non- monetary).

Table 3

**Dynamics of Ukraine's imports from THE EU countries in 2012-2014
by SITC product group (in millions of EUR)**

№	Indicator	2012	2013	Absolute change, M EUR	Relative change, %	2014	Absolute change, M EUR	Relative change, %
1	Food, drinks and tobacco	1873,7	1862,8	-10,9	-0,6	1495,6	-367,2	-19,7
2	Raw materials	577,9	606,4	28,5	4,9	471,2	-135,2	-22,3
3	Mineral fuels, lubricants and related materials	1780,6	2486,7	706,1	39,7	1870,0	-616,7	-24,8
4	Manufactured goods	19250,2	18479,7	-770,5	-4,0	12877,0	-5602,7	-30,3
5	Commodities and transactions not classified elsewhere in the SITC	382,0	463,5	81,5	21,3	273,9	-189,6	-40,9
	Total	23864,4	23899,1	34,7	0,1	16987,7	-6911,4	-28,9

Calculated and built based on [8]

It is to be noted that in the structure of mineral fuels, lubricants and related materials imported from the EU more than 80% consists petroleum, petroleum products and related materials, that significantly decreased in 2014 by 27,6% or by 290,2 milliiards of EUR [8]. In general, the EU's export of energy resources to Ukraine during 2002-2012 was much lower than its imports from Ukraine (fig. 11).

According to fig. 11 there was no definite trend in the EU's imports of energy resources from Ukraine: it significantly increased in 2007 and then become to decrease till 2010, afterwards began to rise again. In the structure of imported energy resources solid fuels (coal) and petroleum products dominated [3]. At the same time the volume of exports varied less than the volume of

imports of energy resources: the EU exported to Ukraine primarily petroleum products.

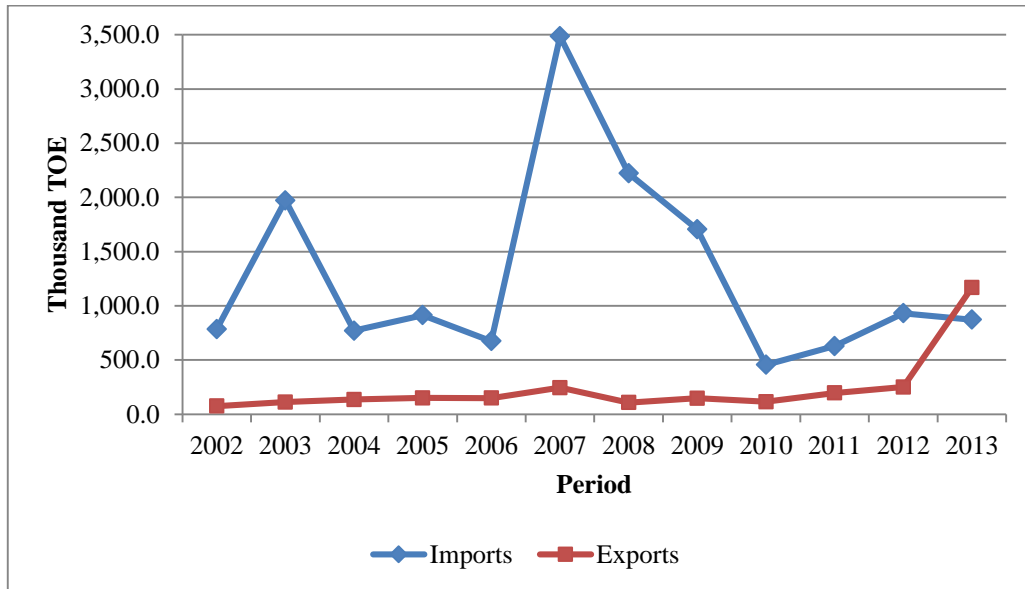


Figure 11. Volume of the EU's exports from/imports to Ukraine of energy resources in 2002-2013

Calculated and built based on [3]

In addition to energy resources the EU also is an importer of electrical energy from Ukraine. For the period 2002-2013 the EU exported the electrical energy almost three times more, than imported to Ukraine [3].

Such tendency in the EU-Ukraine trade relations in energy sphere shall have extended by the end of 10 years transition period during which a free trade area to trade in goods originating in the territories of the parties [1] should be created. This task becomes more important taking into account the necessity of establishing of energy independence of Ukraine and providing the policy for energy efficiency and energy saving.

Title V of the AA regulates economic and sector cooperation and Chapter I of it covers the questions of energy cooperation, including nuclear issues [1]. According to article 338 mutual cooperation between the EU and Ukraine includes such areas as: implementation of energy strategies and policies and

elaboration of forecasts and scenarios; establishing effective mechanisms to address potential energy crisis situations; modernization and enhancement of existing energy infrastructures of common interests; development of competitive, transparent and non-discriminatory energy markets according to the EU rules and standards; cooperation in the framework of the Treaty Establishing the Energy Community of 2005; enhancement and strengthening of long-term stability and security of energy trade, transit, exploration, extraction, refining, production, storage, transport, transmission, distribution and marketing, or sale of energy materials and products on a mutually beneficial and non-discriminatory basis, in accordance with international rules; progress towards an attractive and stable investment climate by addressing institutional, legal, fiscal and other conditions, and encouraging mutual investments in the energy field; promotion of energy efficiency and energy savings, including through the establishment of energy efficiency policies and legal and regulatory frameworks; development of and support for renewable energies; scientific and technical cooperation and exchange of information for the development and improvement of technologies in energy production, transportation, supply and end use [1]. So, within the AA Ukrainian energy industry have lots of opportunities to develop under the EU standards, to provide joint projects, to attract foreign investment and to cooperate with international financial organizations.

Thus, Ukraine has already got its place in the European economy and with the AA it becomes an equal partner to the EU countries. Developing economic relations and deepening Ukraine's integration with the EU both parties get more benefits from trading activity and cooperation. In general, the structure of imports of the EU with predominance of manufactured goods is as favourable as the structure of Ukraine's exports to the EU, but within the AA Ukraine has to produce more competitive commodities in order to compete effectively in the EU's market. In addition, the AA should favour the development of cooperation

in energy sector. Strengthening of energy independence of Ukraine, implementation of energy strategy and establishing effective mechanisms for carrying out necessary reforms are objectives for Ukraine in its way to the EU. Problems of trading activity development within the functioning of the AA as well as promotion and implementations of reforms in the energy sector of Ukraine are questions for further study.

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