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Ukraine's Trade Relations with the EU Countries

Abstract. The article presents an analysis of characteristics and prospects of Ukraine's foreign trade with key trading partners in the EU. The authors examine the role of institutional support, with emphasis on the liberalisation of mutual trade relations and the implementation of existing policy documents. In addition to analysing the dynamics and current structure of Ukraine's foreign trade with the EU, the authors present an econometric model that illustrates the relationship between Ukraine's GDP and the indicators of exports of goods to the EU and imports of goods from the EU for the period 2012–2023. The presented data indicate that higher exchange of goods with the EU had a positive impact on Ukraine's economic growth. Taking into account current characteristics and problems of Ukraine's foreign trade development in the context of global factors and Russia's full-scale invasion, the authors identify potential opportunities for integration with European markets and the primacy of European collaboration in Ukraine's foreign economic policy.

Keywords: foreign trade, merchandise exports, merchandise imports, balance of trade, free-trade zone

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1. Introduction

A country's participation in international trade affects its economy. Exchange rates, inflation rates and interest rates depend on the country's balance of imports and exports. High levels of import trade indicate a high level of domestic demand and economic growth, while high levels of export trade stimulate employment and capital inflows, which boost private consumption.

Given Ukraine's present situation, its future prospects depend vitally on the presence of long-term support from international partners (Havrylyuk, 2024). In our opinion this also applies to foreign trade.

Since 2016, Ukrainian companies have been using the opportunities provided by the Free Trade Area with the EU. Measures to liberalize foreign trade and implement the existing policy documents were taken by foreign and Ukrainian partners. The trend of positive changes in mutual trade continues. In response to Russia's full-scale military invasion of Ukraine a number of institutional and organizational initiatives are being implemented at the European level. For example in 2022 Regulation (EU) No. 2022/870 of the European Parliament and of the European Council on temporary measures for the trade liberalization for a period of one year came into force. This decision complemented the opportunities that Ukrainian exporters had under the EU-Ukraine Association Agreement and was aimed at supporting domestic producers to continue their activity in spite of Russia's war against Ukraine. Furthermore, the European Union extended the "customs visa-free regime" until June 5, 2024, and on May 31, 2024 the European Parliament and the European Council decided to extend the abolition of import duties on Ukrainian export for another year. At the same time the European initiative launched the Solidarity Roads Action Plan to generate alternative logistics routes for Ukraine. The decisions taken in 2022 were timely given that it was at that time that Ukraine lost access to the Black Sea export route and needed to quickly reorient to other logistics routes.

But EU member states had become Ukraine's key trading partners even before the outbreak of the full-scale war. Fundamental changes began when, after the introduction of numerous trade "wars," the annexation of Crimea by Russia and the outbreak of war in the East, Ukrainian producers began to look for alternatives to partners from the Commonwealth of Independent States countries. The process of liberalization of trade relations continues, which implies that Ukraine will follow European rules.

2. Aims and Methodology of the Study

The aim of the article is to study the impact of Ukraine's trade with the EU on the country's economy. The authors econometric analysis involving correlation and regression models to investigate the impact of trade relations between Ukraine and the EU on Ukraine's GDP.

3. Results

Ukraine is fully dependent on the conditions of the EU's economy, especially on certain dimensions of cooperation with the UE market by virtue of the Association Agreement and the Free Trade Area. Depending on the duration of economic conditions Ukrainian producers adopt the model of functioning that is suggested by the capabilities of the economic system in a particular economic cycle. There is a growing trend towards intensification of foreign economic activity and a number of opportunities associated with joint projects, research and development, division of labor, consulting, joint ventures and investment. All these conditions are important factors in the development of a market economy and stimulate foreign economic activity (Savitskyi, 2019).

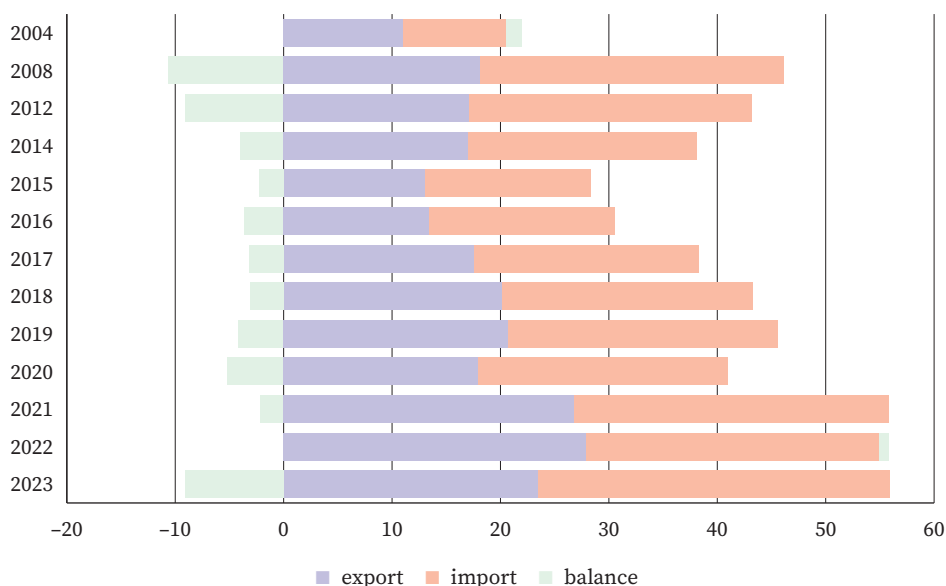


Fig. 1. Export, import and the balance of Ukraine's trade with EU member countries, in billion USD
Source: MEU (2023)

Over the last two years, the share of trade with the EU in Ukraine's total trade has been steadily rising from 39.1% in 2021, to 53.6% in 2023 and to 56.0% in 2023. At the same time Ukraine was the 17th most important trading partner for the EU and one of the three main suppliers of agricultural products (goods of groups 1–24) to the European market.

In the context of Russia's full-scale invasion of Ukraine and the shrinking capacity of the domestic market, the national economy is becoming increasingly internationalized and integrated into global value chains. In 2022 Ukraine's trade openness amounted to almost 70%. At the same time in the context of the geopolitical reformatting of world trade flows, Ukraine's trade and economic cooperation with the EU countries has been growing and the geography of foreign economic activity has been expanding (Prytula and Kyryk, 2023).

The growth of trade in goods between Ukraine and the EU, which has been restored after 2016, has gradually become stable although it is cyclical in nature (Fig. 1).

Overall, the volume of trade in goods between Ukraine and the EU amounted to USD 55.9 billion in 2023 which is 1.9% more than in 2022. At the same time, the export of goods to the EU fell by 16.1%, to USD 23.4 billion. The import of goods increased by 20.5% and its value reached USD 32.5 billion. By the end of 2023, the bilateral trade balance for Ukraine was negative at –9.1 billion USD.

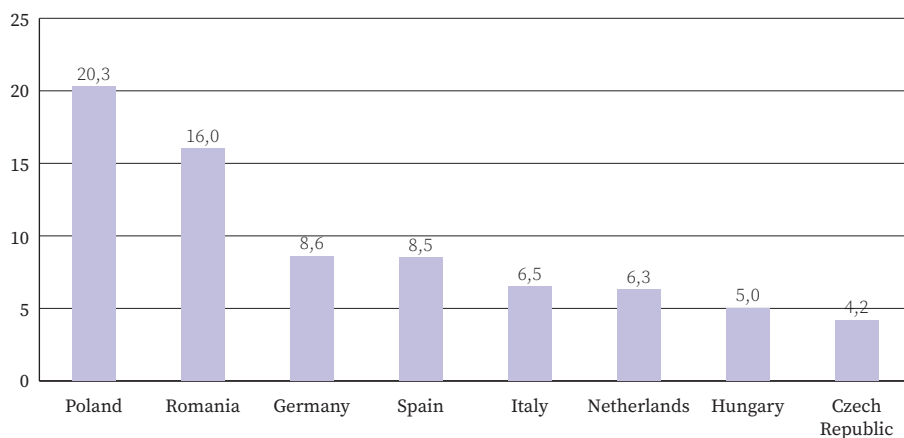


Fig. 2. The largest partner countries (EU members) of Ukraine, in terms of the percentage of total commodity exports in 2023
Source: SSSU (2023a)

The largest importers of Ukrainian goods are Poland (20.3% of export to the EU), Romania (16%), Germany (8.6%), Spain (6.5%), the Netherlands (6.3%), Hun-

gary (5%), and the Czech Republic (4.2%). At the same time most of Ukraine's import come from Poland (20.2% of total EU import), Germany (15.5%), Italy (7.0%), Bulgaria (6.8%), the Czech Republic (5.5%), France (5.4%), Slovakia (5.1%), and Romania (4.8%). Ukraine maintains a positive foreign trade balance with Austria, Cyprus, Croatia, Latvia, Malta, the Netherlands, Portugal, Romania, Spain and the Netherlands. (Fig. 2 and 3).

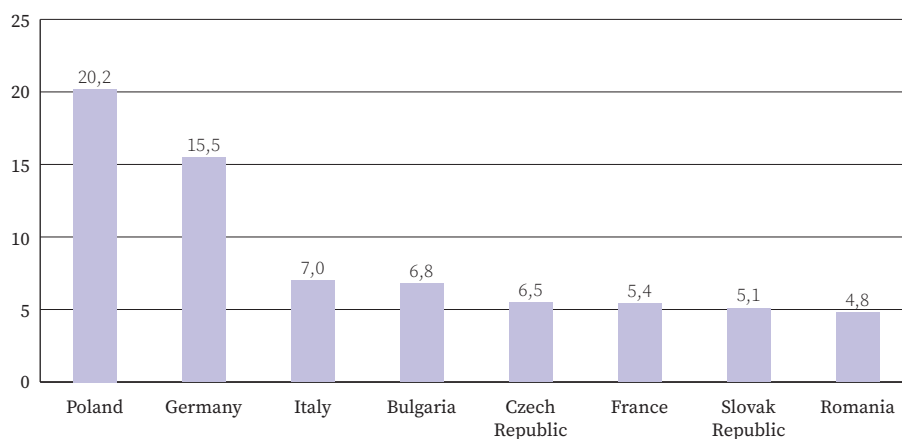


Fig. 3. Ukraine's largest trade partners (EU members) in terms of the percentage of total commodity imports in 2023
Source: SSSU (2023a)

In 2023, Ukraine's export to the EU countries was dominated by agricultural and food products, metallurgical and mechanical engineering products, mineral products, wood and wood products, industrial goods, and chemical products (Table 1).

Table 1. The largest commodity groups in Ukraine's foreign trade with the EU in 2023

Code and name of goods according to Ukrainian classification of goods of foreign economic activity		Export		Import	
		thousand USD	% of the total volume	thousand USD	% of the total volume
I.	Live animals; products of animal origin	659947.0	2.8	607475.9	1.9
II.	Products of plant origin	6903004.3	29.5	685017.1	2.1
III.	Fats and oils of animal or vegetable origin	2981515.5	12.7	91261.7	0.3
IV.	Prepared food products	1953673.1	8.4	2247547.2	6.9
V.	Mineral products	2051755.6	8.8	6739044.9	20.7
VI.	Products of chemical and related industries	440239.6	1.9	4610817.2	14.2

Code and name of goods according to Ukrainian classification of goods of foreign economic activity		Export		Import	
		thousand USD	% of the total volume	thousand USD	% of the total volume
VII.	Polymeric materials. plastics and products	207236.7	0.9	1943509.7	6.0
IX.	Wood and wood products	1254514.1	5.4	155631.0	0.5
X.	Mass of wood or other fibrous cellulosic materials	130883.1	0.6	626088.4	1.9
XI.	Textile materials and textile products	265057.9	1.1	620657.9	1.9
XV.	Precious metals and products made from them	3032814.0	13.0	1504683.3	4.6
XVI.	Machinery. equipment and mechanisms; electrical equipment	1957828.0	8.4	4301154.0	13.2
XVII.	Land transport vehicles. aircraft. floating craft	224891.9	1.0	3921893.6	12.1
XX.	Various industrial products	827610.8	3.5	309100.2	1.0

Source: SSSU (2023b)

Among the goods whose export increased in the current period are residues and waste from the food industry. Imports from the EU to Ukraine in 2023 were dominated by energy materials; means of land transport, except rail; nuclear reactors, boilers, machinery; electrical machinery; plastics, polymeric materials; pharmaceutical products; and fertilizers. Imports of all of the above commodity groups increased compared to 2022.

Ukraine's dependence on foreign trade with the EU is confirmed by results of correlation and regression analysis. The authors created an econometric model representing the relationship between Ukraine's GDP (y) and the indicators of export of goods to the EU (x_1) and import of goods from the EU (x_2) for 2012–2023. Two regression models describing the impact of each of the two independent variables x_1 , x_2 on the variable y and their statistical estimates are presented in Table 2.

Table 2. Regression models of the impact of independent variables on GDP

	x_1 (Export of goods to the EU. billion USD)	x_2 (Import of goods from the EU. billion USD)
Model equation	$y = 50844.58 + 5006.55 x_1$	$y = -13807.87 + 6736.39 x_2$
The correlation coefficient	0.66	0.92
F-statistics	7.9	56.54

Source: Authors' calculations based on regression analysis

The intensity of the relations between the variables in the regression model is measured by the correlation coefficient, which indicates the existence of a posi-

tive relationship between the variables in both models. Looking at the regression model and the correlation coefficient, it can be concluded that the model is adequate since the observed value of the F-statistic in all models is greater than the tabulated value at the level of 0.05. Thus, taking into account the calculations based on data for 2012–2023, we can expect that the growth of export of goods to the EU and import of goods from the EU will continue to have a positive impact on Ukraine's GDP: the model indicates that an increase in exports by USD 1 billion is associated with a growth of GDP by USD 5006.55 million; similarly, an increase in imports by USD 1 billion is associated with an growth of GDP by 6736.39 million USD (Fig. 4 and 5).

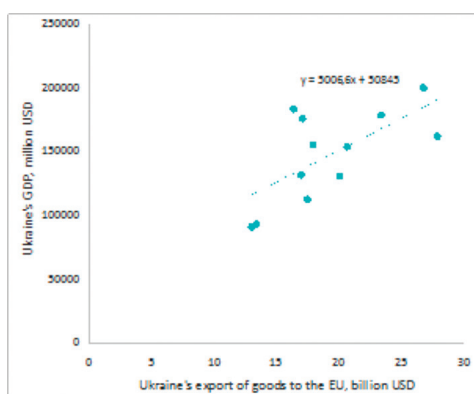


Fig. 4. The relationship between Ukraine's GDP and its export of goods to the EU
Source: Results of regression analysis performed by the authors

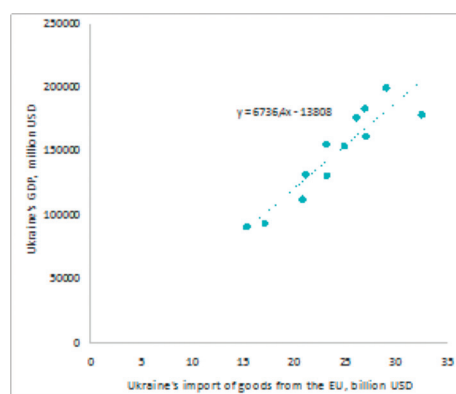


Fig. 5. The relationship between Ukraine's GDP and its import of goods from the EU
Source: Results of regression analysis performed by the authors

The above can be confirmed by the corresponding trend linear models we have built (Fig. 6).

The current international situation in world trade contributes to the achievement of the objectives of the UE trade policy, which are to conclude free trade agreements and promote the norms and standards of EU products. The European Union is a leader in global trade in products and services. At the same time, it is one of the most trade-dependent economies. The volume of trade within the EU is 1.5 times as high as that outside, which indicates that importance of creating regional integration associations. However, the implementation of EU trade policy will largely depend on external challenges (continued competition from China and the United States, the growing role of emerging markets, the pandemic, the war unleashed by Russia and internal problems (Hryhorova-Berenda and Kaverina, 2022).

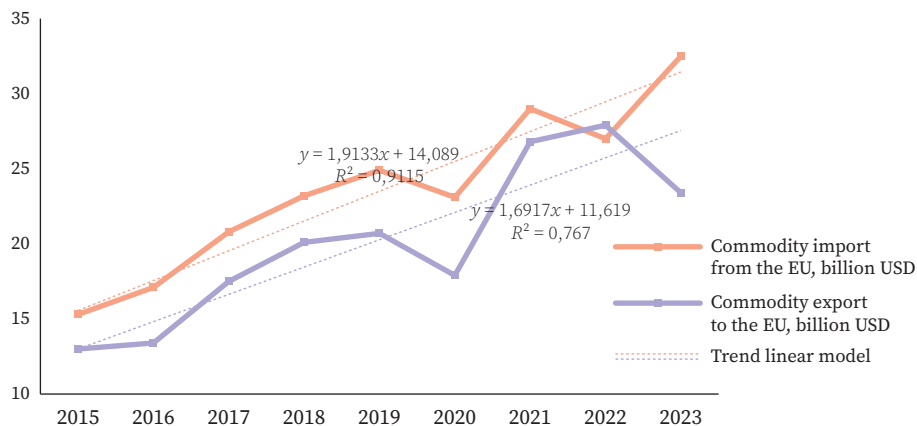


Fig. 6. Dynamic series of indicators and corresponding trend models of Ukraine's commodity export to the EU and commodity import from the EU
Source: Results of regression analysis performed by the authors

After 2015, when, firstly, the Ukrainian economy managed to neutralize the negative impact of the military conflict with the Russian federation and, secondly, there appeared necessary institutional opportunities for intensifying foreign trade with the EU, the volume and value of Ukrainian exports to the EU and imports from the EU started to grow. This growth was hampered in 2020 when the coronavirus pandemic caused a sharp drop in international trade in the world as a whole and therefore in foreign trade between Ukraine and the EU. However, just a year later, the volume of Ukraine's export and import trade with the EU began to increase again: compared to 2020, the export of goods to the EU increased by 49.4% and the import of goods from the EU increased by 25.2%. Unfortunately, the realities of wartime domestic commodity exports to the EU fell to USD 23.4 billion in 2023. This was due to a reduction in the production of domestic export products following the destruction of enterprises, the seizure of territories, the mining of agricultural land as well as periodic blockades of the Ukrainian border and the introduction of restrictions on the export of certain types of agro-industrial products of Ukrainian producers by a number of European countries. In contrast, commodity imports from the EU in 2023 increased: the largest share of imported goods included such groups as mineral products, chemical and related industries, machinery, equipment and mechanisms and electrical equipment and means of ground transport, aircraft, floating vehicles.

4. Conclusions

Given the expansion of opportunities for Ukraine to join European markets, the development of Ukraine's foreign economic policy was considered a priority and the EU member states have become Ukraine's largest and most reliable trading partners. Although the current structure of trade is primarily determined by export capacity rather than economic feasibility, European institutional and organizational support contributes to the functioning of Ukraine's economic system, facilitates access to the European market for domestic producers, promotes Ukrainian goods within the European space and supports foreign trade. The accumulated experience of mutual cooperation is an important factor in Ukraine's further European integration and shows priority areas of communication with European partners along with a need for assistance and support both in the economic and diplomatic spheres.

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Stosunki handlowe Ukrainy z krajami UE

Streszczenie. W artykule przedstawiono analizę cech i perspektyw handlu zagranicznego Ukrainy z kluczowymi partnerami handlowymi w UE. Autorki omawiają rolę wsparcia instytucjonalnego, ze szczególnym naciskiem na liberalizację wzajemnych stosunków handlowych i wdrażanie istniejących dokumentów dotyczących polityki w tym zakresie. Oprócz analizy dynamiki i obecnej struktury handlu zagranicznego Ukrainy z UE, autorki przedstawiają model ekonometryczny ilustrujący związek między PKB Ukrainy a wskaźnikami eksportu towarów do UE i importu towarów z UE w okresie 2012–2023. Przedstawione dane wskazują, że większa wymiana handlowa z UE miała pozytywny wpływ na wzrost gospodarczy Ukrainy. Biorąc pod uwagę obecne cechy i problemy, przed jakimi stoi handel zagraniczny Ukrainy w kontekście czynników globalnych i pełnoskalowej inwazji Rosji, autorki identyfikują potencjalne możliwości integracji z rynkami europejskimi i prymat współpracy europejskiej w zagranicznej polityce gospodarczej Ukrainy.

Słowa kluczowe: handel zagraniczny, eksport towarów, import towarów, bilans handlowy, strefa wolnego handlu