

EU-UKRAINE Deep and Comprehensive Free-trade Area. New Opportunities for Europe

Dr. Ricardo Giucci

Berlin Economics/German Advisory Group Ukraine

International conference at the Istituto Affari Internazionali (IAI)
Rome, 19 November 2013

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1. Economic indicators: GDP

GDP (2012): USD 176 bn

For comparison: IT: USD 2,013 bn;

RU: USD 2,014 bn; BY: USD 63 bn; MD: USD 7.3 bn

Population: 45.6 m

GDP/capita: USD 3,867

For comparison: IT: USD 33,048

RU: USD 14,037 ; BY: USD 6,685 ; MD: USD 2,037

→ Relatively large economy in a regional context, with much potential for growth and development

1. Economic indicators: Foreign trade

Exports/GDP (2012): 51.0%

Imports/GDP (2012): 59.3%

For comparison IT (2012): Ex/GDP: 30.3%; Im/GDP: 29.1%

→ Ukraine is a very open economy

Regional trade structure (goods)

- Exports: Russian Federation 25.6%, EU 24.8%
- Imports: Russian Federation 32.4%, EU 30.9%

→ Diversified trade structure; RU and EU main partners

1. Economic indicators: Trade and investment

Goods trade structure (2012)

- Exports: Metallurgy 27.5%, Agriculture 20.9%
- Imports: Mineral products 32.5%, Machinery 15.5%

FDI stock, regional comparison, end 2011

	Ukraine	Poland	Russian Federation
FDI, USD bn	52.522	198.031	455.904
FDI per capita, USD	1,151	5,137	3,176
FDI as %of GDP	29.8%	40.4%	22.5%

Source: IMF, World Bank

→ FDI relatively low, due to a problematic investment climate

2. The impact of the DCFTA: Trade

Main implications of DCFTA on trade:

- Elimination of tariffs between Ukraine and EU
- Reduction of non-tariff barriers (standards, certificates, etc.)

Impact of DCFTA on trade flows and GDP:

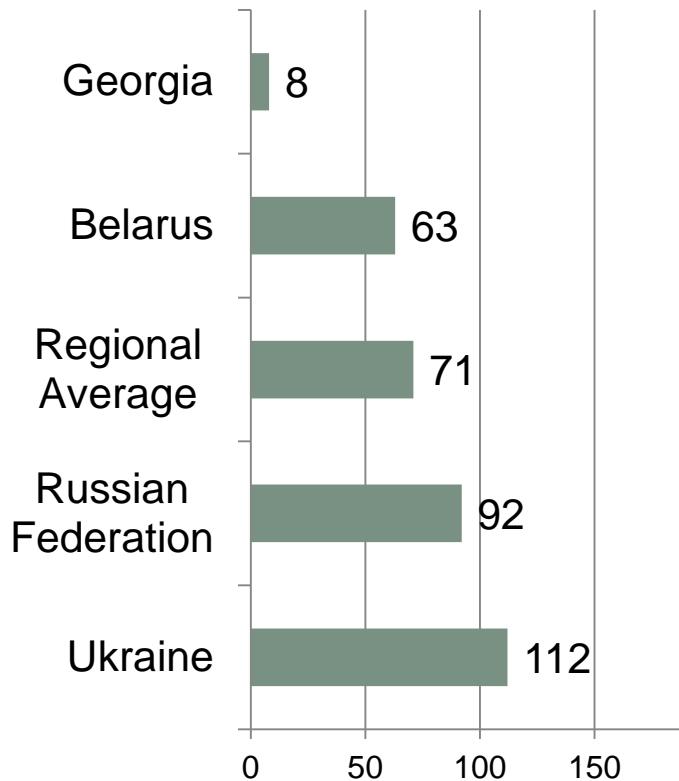
	Exports	Imports	GDP
Impact DCFTA	+6%	+6%	+6.2%

Source: German Advisory Group and IER Kiev

→ Very strong positive impact on trade and GDP

2. The impact of the DCFTA: FDI

„Doing Business 2014“ Ranking



Source: World Bank

DCFTA: Contributor to higher FDI

Reasons:

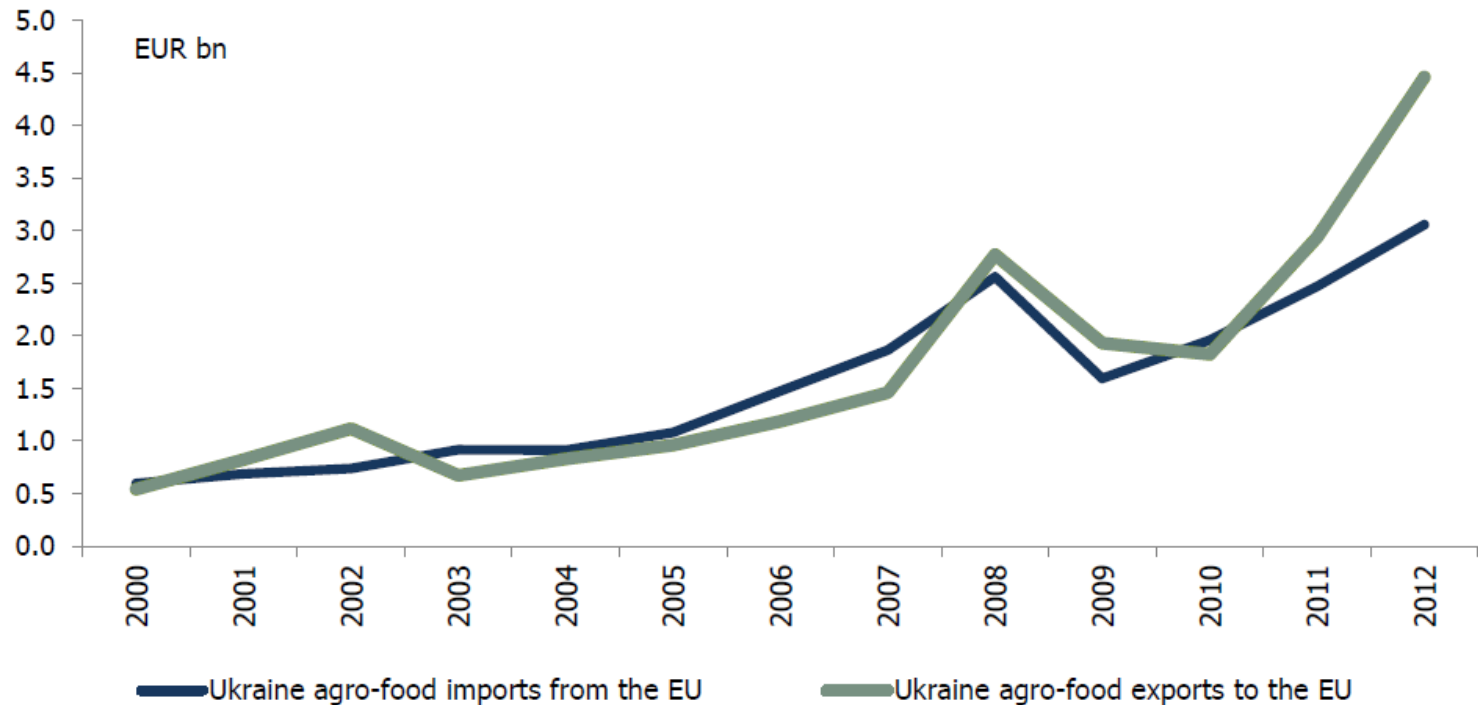
- Very good access to EU market
- Improvement of business climate to be expected

However:

- Business climate is expected to remain difficult in Ukraine, even after DCFTA

Main fields for investment: Agriculture

Trade in agriculture and agriculture-related products between the EU and Ukraine, 2002-2012

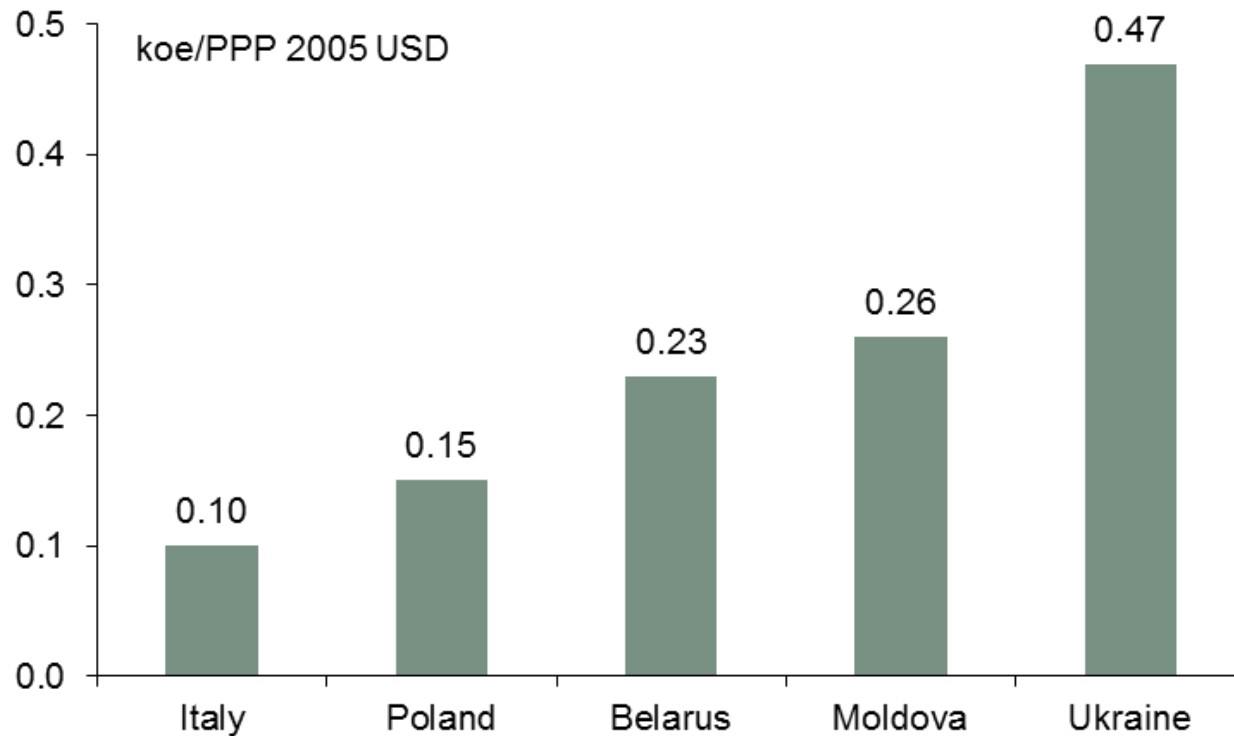


Source: Eurostat (2000-2012)

DCFTA expected impact: Exports +20%, imports +7%

Main fields of investment: Energy efficiency

Energy intensity*, regional comparison, 2010



Source: International Energy Agency 2012

*Kilogram oil equivalent per USD GDP at purchasing power parities of the year 2005

3. Challenges for implementation of DCFTA

i. Adjustment costs

- As in any free trade agreement, there will be winners and loser; i.e., not all sectors will benefit

Structural impact:

- Winners: Agriculture, textiles, metallurgy
- But: Possible problems for machine building

ii. Benefits will only materialize in the medium and long term

- Time perspective is a challenge, given the short-term orientation of the country

iii. New challenge: Relations to Russia

4. Ukraine and the Russian-led customs union

- As of today: Ukraine has a free trade agreement with CIS countries, including Russia
- Offer from Russia: Ukraine should join the customs union
- Problems:
 - Customs union is not compatible with DCFTA EU
 - Customs union has a very high level of protection; average import tariff of Russia is 9.5% (Ukraine: 2.7%)
 - Joining customs union means a step back towards protectionism

	Exports	Imports	GDP
Impact of joining the customs union on Ukraine	-4.6%	-4.3%	-3.7%

Source: German Advisory Group and IER Kiev

→ Russian offer is not attractive for Ukraine

5. Concluding remarks

DCFTA is expected to have a very positive impact on Ukraine:

- More foreign trade, both exports and imports
- Better business climate and more foreign investment
- Modernisation of economy
- Higher GDP

DCFTA creates new opportunities for EU companies:

- For trade: Especially in agriculture, textiles and energy
- But also for investment in Ukraine

Contact

Dr. Ricardo Giucci
giucci@berlin-economics.com

BE Berlin Economics GmbH
Schillerstr. 59, D-10627 Berlin
Tel: +49 30 / 20 61 34 64 0
Fax: +49 30 / 20 61 34 64 9

