

# The economic effect of the DCFTA on Ukraine, Moldova and Georgia. A comparative analysis

- Financed by the Federal Ministry of Economic Affairs and Energy -

**Second version: 1 July 2019**

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# Summary

- In 2014, the EU signed deep and comprehensive free trade agreements (DCFTAs) with Ukraine, Moldova and Georgia
- We estimate the economic effect of the DCFTA on the three countries by comparing relevant indicators in 2018 with 2013
- Afterwards we compare the effect between countries
- The overall effect of the DCFTA seems to be positive, but major differences exist between the countries
- The strongest effect clearly relates to exports; the effect on FDI is so far rather weak

Effect on categories, 2018 vs 2013	Ukraine	Moldova	Georgia
Exports	++	+++	+
Commodity composition of exports	+	0	++
FDI	0	+	+

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# 1. Introduction

**2014:** Ukraine, Moldova and Georgia concluded deep and comprehensive free trade agreements (“DCFTAs”) with the EU, which came into force the same year\*

## To be analysed here

- What has been the economic effect of the DCFTAs on the three countries so far?
- Is the effect similar in all three countries or are there major differences?

**Economic effect:** represented by three categories

- Exports
- Commodity composition of exports
- FDI

\* Ukraine: coming into force on January 2016, but EU applied its treaty obligations using autonomous trade measures in 2014; i.e. for Ukrainian exports, DCFTA de facto in force since 2014

## 2. Method: three steps

**First step:** choosing appropriate indicators for the three categories exports, commodity composition of exports and FDI (see next slide)

**Second step:** for each country, calculation of the change of these indicators in 2018 compared to 2013

- 2013: last year before the DCFTA
- 2018: last full year after the DCFTA
- Significant improvements of indicators in this period are interpreted as a positive DCFTA effect; this does not necessarily imply causality

**Third step:** comparison of the changes in indicators between the three countries

# 3. Ukraine

## Exports

- i. Export to the EU in USD terms
- ii. Exports to the EU in constant prices
- iii. Exports to the EU as a share of total exports

## Commodity composition of exports

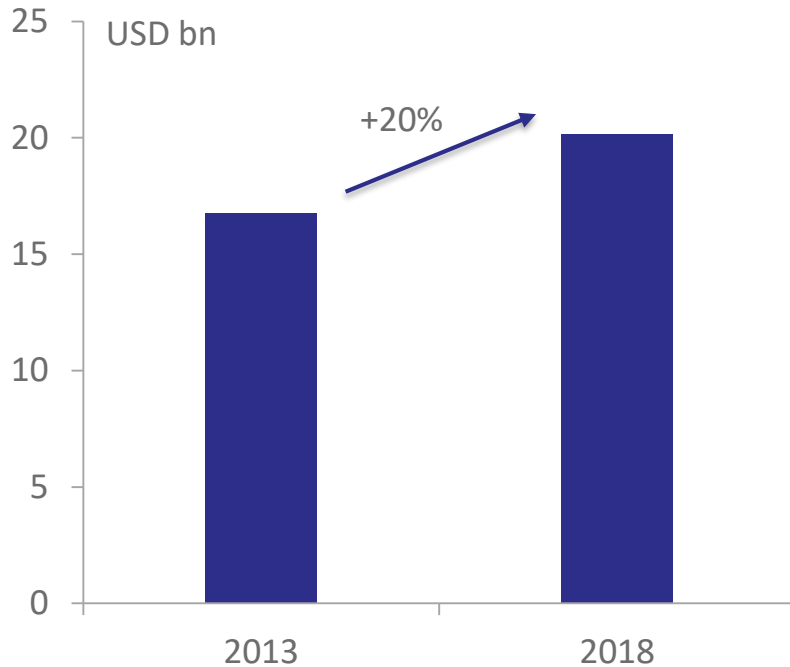
- iv. Share of new products in total exports to the EU
- v. Degree of concentration of exports to the EU
- vi. Change in exports to the EU by level of processing

## FDI

- vii. FDI stock in USD terms
- viii. Share of EU in total FDI stock

## i. Exports to EU in USD terms

### Exports to the EU in USD terms, 2018 vs 2013



Source: WITS, Ukrstat, authors' estimates

Note: exports of goods

### Exports to the EU

- 2013: USD 16.8 bn
- 2018: USD 20.2 bn

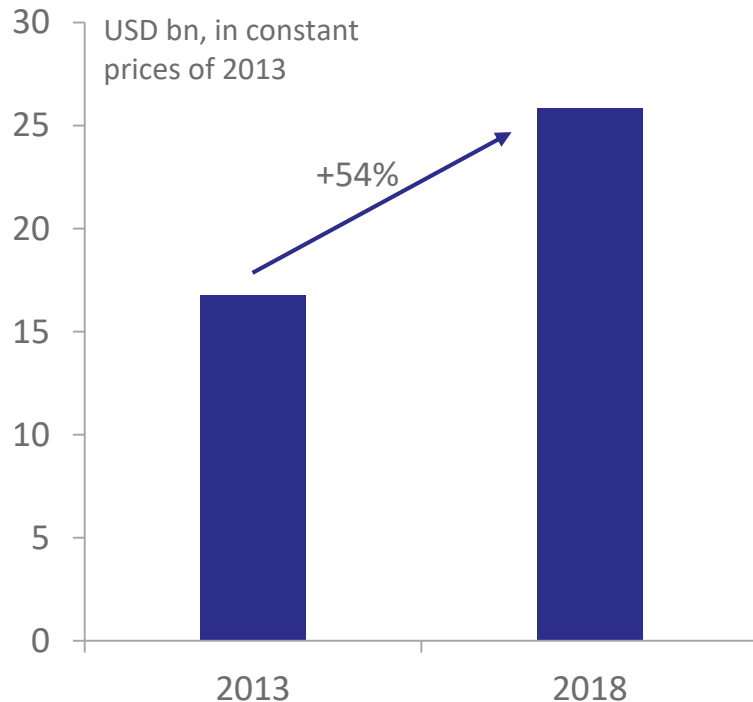
→ Moderate increase by 20%

### But: result is quite remarkable in view of

- Military conflict in the Donbas region
- In this period, government lost control over Crimea and part of Donbas
- Total exports decreased by 25% in this period
- Global commodity prices for key export goods such as grain and metals were much lower in 2018 than in 2013, thus depressing exports in USD terms

## ii. Exports to the EU in constant prices

### Exports to the EU in constant prices, 2018 vs 2013



Source: WITS, Ukrstat, authors' estimate; exports of goods

### Next step

- Removal of effect of price changes
- How? Using constant prices of 2013

### Exports to EU (in constant prices of 2013)

2013: USD 16.8 bn

2018: USD 25.8 bn

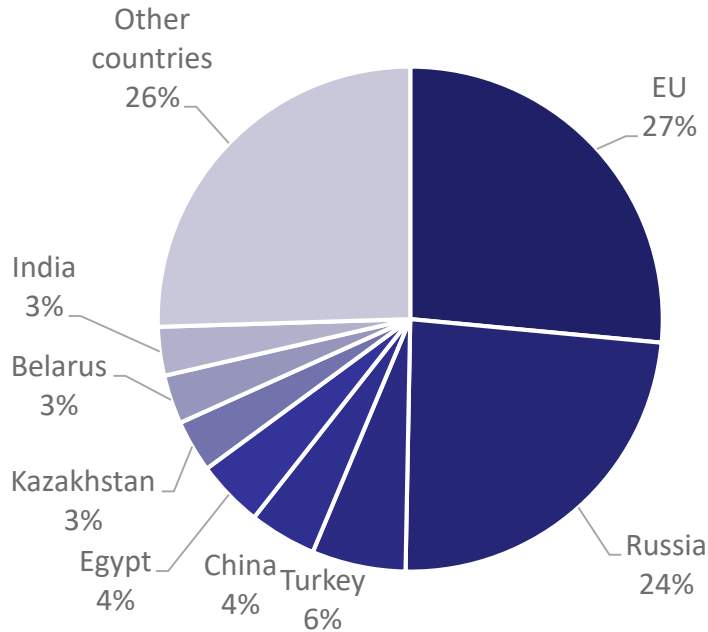
→ Large increase by 54%

**Interpretation:** substantial effect of DCFTA on exports to EU likely, once the negative effect of global prices is removed

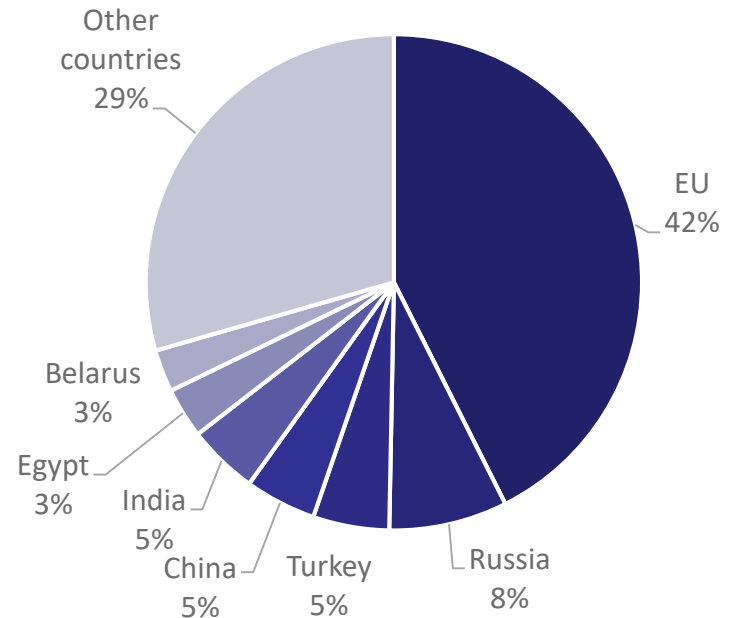


### iii. Exports to the EU as a share of total exports

2013



2018



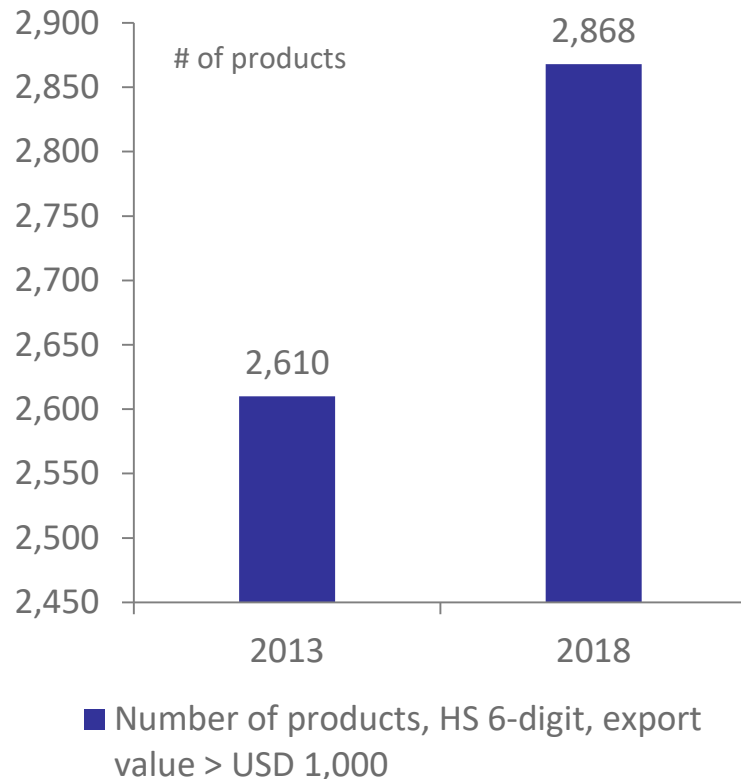
Source: UN ComTrade, WITS

- **Very strong increase** of share of exports to EU by 15 pp
- Breakdown of trade with RUS indirectly contributed to this increase

**All in all:** clear indication of a strong effect of DCFTA on exports

## iv. Share of new products in total exports to the EU

### Number of UKR exported goods to the EU, 2018 vs 2013



Source: WITS, Ukrstat, authors' estimate; exports of goods

### Number of exported goods to the EU

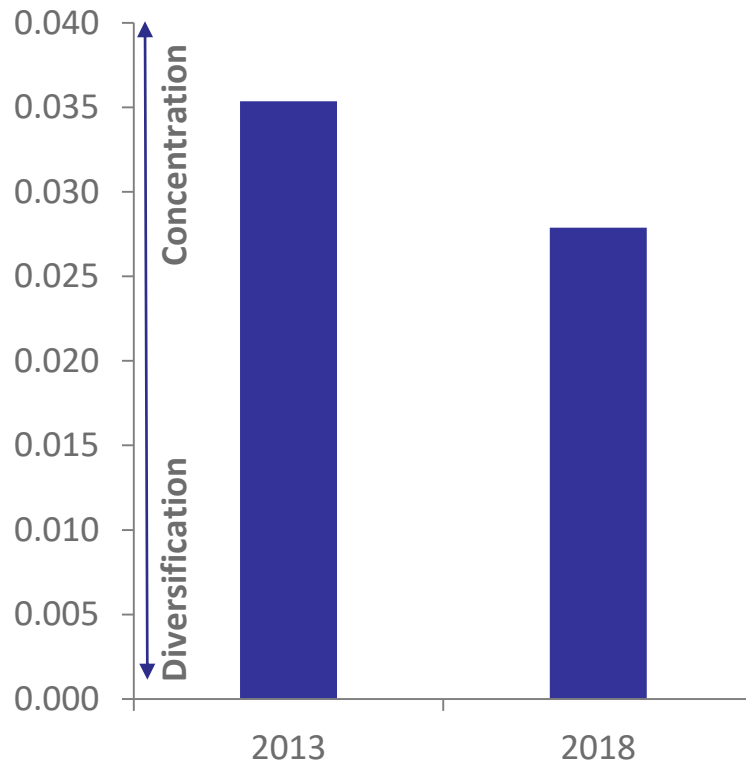
- 2013: 2,610 products
- 2018: 2,868 products
- **Net increase of 258 products**

### Share of new products in exports to EU, 2018 vs 2013

- Gross number of new goods: 584
  - Export value: USD 302 m
  - Share in value of exports to EU: 2%
- **Active appearance of new products, but so far limited role in total exports**

## v. Degree of concentration of exports to the EU

HHI on concentration of UKR exports to the EU, 2018 vs 2013



Source: WITS, Ukrstat, authors' estimate using exports of goods at 6-digit HS

### Herfindahl-Hirschman-Index (HHI)

- Indicator of concentration of exports by products
- The higher the value, the more concentrated are exports
- Maximum value = 1

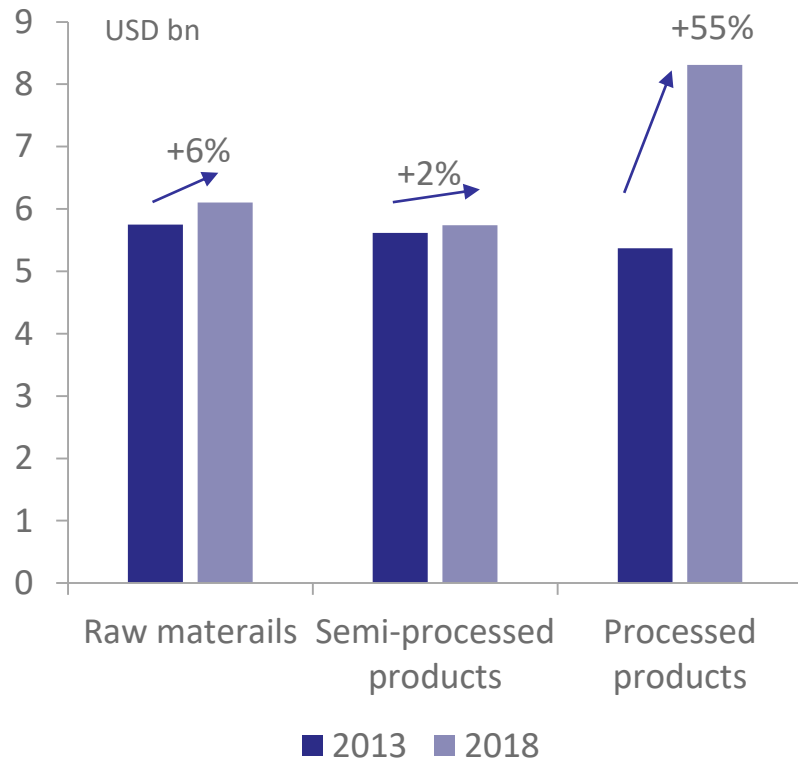
### HHI for exports to the EU

- 2013: 0.035
  - 2018: 0.028
  - Relative change 2018/2013: -21%
- **Concentration of exports decreased**

**Thus:** DCFTA seems to have stimulated diversification of exported products

## vi. Change in exports by level of processing

UKR exports to the EU, 2018 vs 2013, by level of processing



Source: WITS, authors' estimated based on MTN classification

### Exports to EU by level of processing, 2018 vs. 2013

#### Share of raw materials

- Decrease from 34% to 30% of total

#### Share of semi-processed products

- Decrease from 34% to 28% of total

#### Processed products

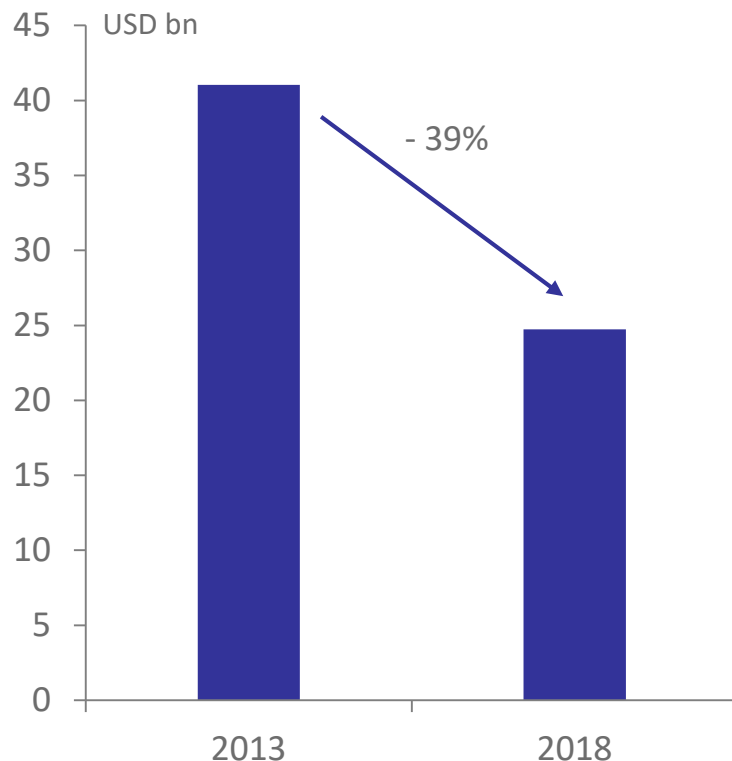
- Increase from 32% to 41% of total

→ Share of processed products increased by 9 pp; positive development

**All in all:** moderate effect of DCFTA on commodity composition of exports

## vii/viii. FDI stock in USD and as a share of total FDI

FDI stock (equity capital) from the EU,  
2018 vs. 2013, eop



Source: Ukrstat

### vii. FDI stock from the EU

- 2013: USD 41 bn; 2018: USD 25 bn
- **Sharp decrease by 39%, in line with overall reduction of FDI stock by 40%**

### Reasons for overall reduction

- Hryvnia devaluation & economic crisis led to lower asset values
- Loss of assets in Donbas region
- Outflow of FDI

### viii. Share of EU in FDI stock

- 2013: 76%; 2018: 77%
- Only marginal increase by 1 pp
- **First 5 years of DCFTA did not coincide with stronger FDI from the EU**

# 4. Moldova

## Exports

- i. Export to the EU in USD terms
- ii. Exports to the EU in constant prices
- iii. Exports to the EU as a share of total exports

## Commodity composition of exports

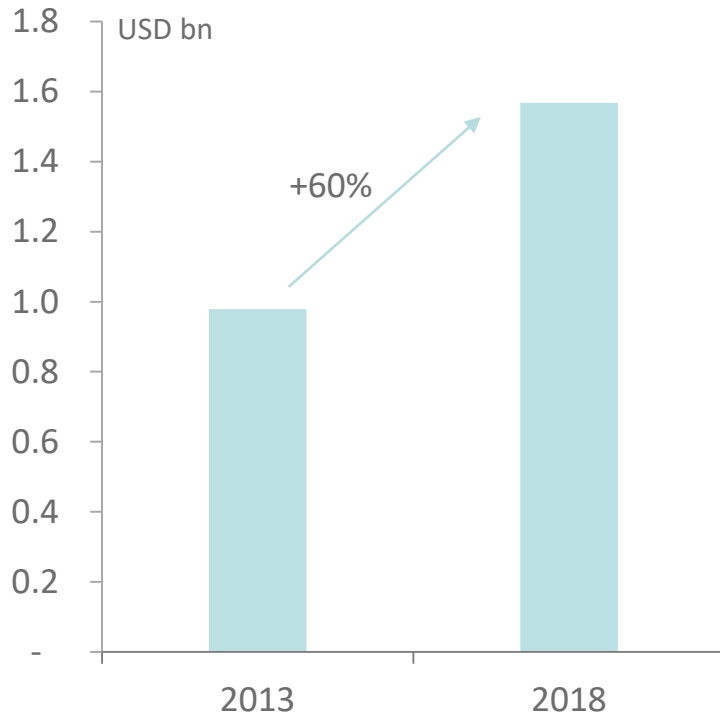
- iv. Share of new products in total exports to the EU
- v. Degree of concentration of exports to the EU
- vi. Change in exports to the EU by level of processing

## FDI

- vii. FDI stock in USD terms
- viii. Share of EU in total FDI stock

# i. Exports to the EU in USD terms

## Exports of goods to the EU, 2018 vs 2013



Source: WITS, authors' estimates

Note: exports of domestically-produced goods, excl. classical re-exports as defined by the NBS

## Exports to the EU

- Focus: exports of domestically produced goods, i.e. excluding re-exports\*
  - 2013: USD 1.0 bn
  - 2018: USD 1.6 bn
- **Very large increase by 60%**

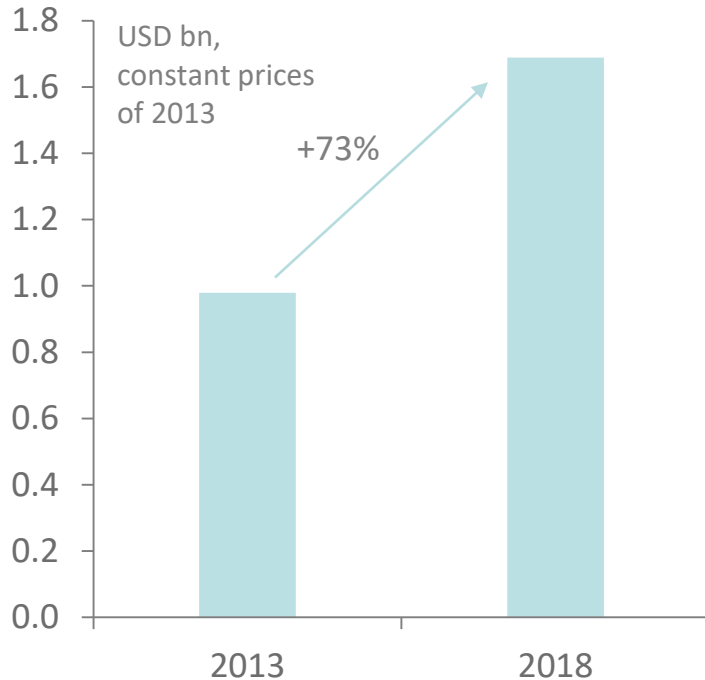
## Main reasons

- Rise in exports of spare parts for vehicles
- Intensification of agricultural exports such as sunflower seeds, maize and wheat

\* More precisely: excluding classical re-exports, as defined by the NBS

## ii. Exports to the EU in constant prices

### Exports to the EU in constant prices, 2018 vs 2013



**Source:** WITS, authors' estimates  
Remark: exports of domestically-produced goods, excluding classical re-exports as defined by the NBS

### Next step

- Removal of effect of price changes
- How? Using constant prices of 2013

### Exports to EU (in constant prices of 2013)

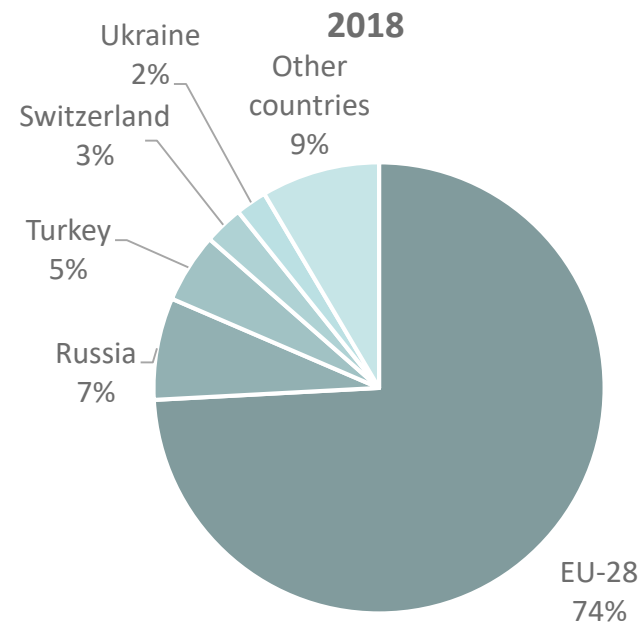
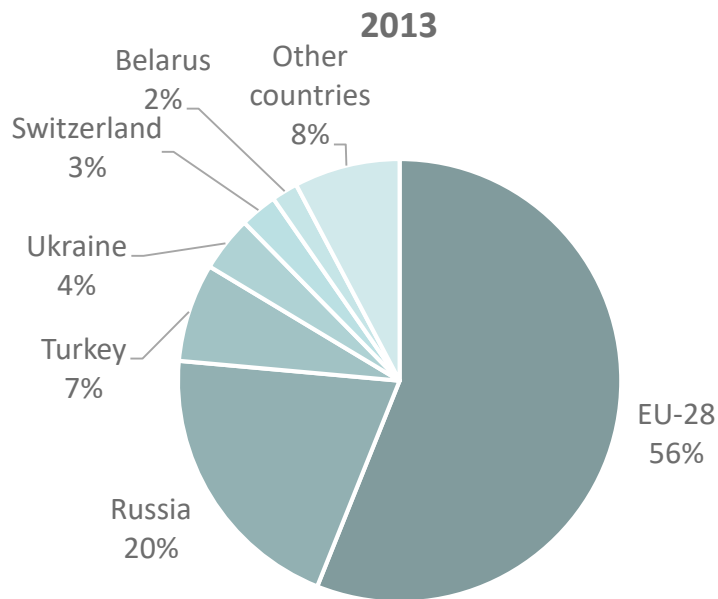
- 2013: USD 1.0 bn
- 2018: USD 1.7 bn

→ **Very strong rise by 73%**

**Interpretation:** export performance even stronger, once the negative effect of prices changes is removed



### iii. Exports to the EU as a share of total exports



**Source:** WITS, authors' estimates; exports of domestically-produced goods, excluding classical re-exports as defined by the NBS

- Share of EU in MDA exports rose by 18 pp; **very large increase**
- Breakdown of trade with RUS indirectly contributed to this increase

**All in all:** clear evidence of very strong effect of DCFTA on exports

## iv. Share of new products in total exports to the EU

### Number of MDA exported products to EU, 2018 vs 2013



Source: WITS, authors' estimates

Remark: exports of domestically-produced goods, excluding classical re-exports as defined by the NBS

### Number of exported goods to the EU

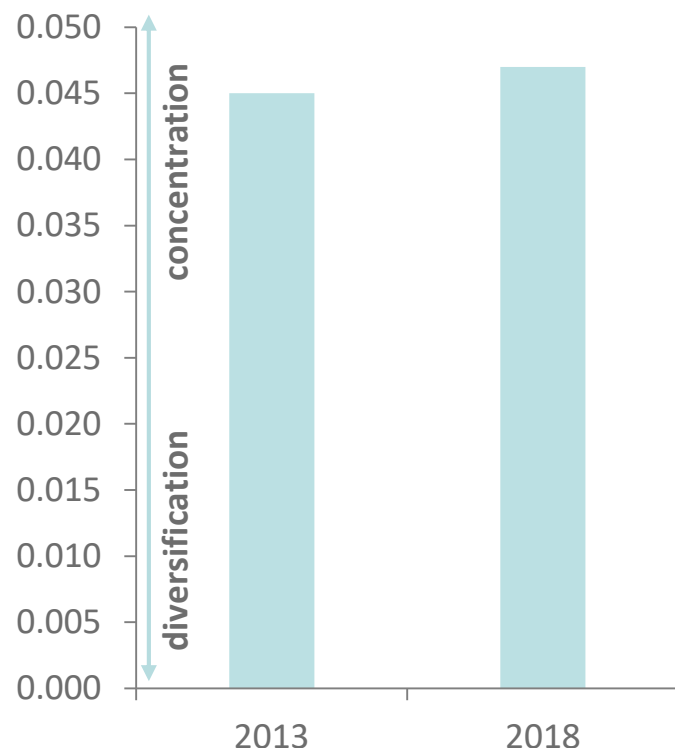
- 2013: 927 products
- 2018: 1,084 products
- **Net increase by 157 products**

### Share of new products in exports to EU, 2018 vs 2013

- Gross number of new goods: 411
  - Export value: USD 49 m
  - Share in value of exports to EU: 3%
- **Active appearance of new products, but small role in total exports**

## v. Degree of concentration of exports

HH index on concentration of MDA exports to the EU; 2018 vs 2013



Source: WITS, Ukrstat, authors' estimate; exports of domestically-produced goods at 6-digit HS, excl. classical re-exports as defined by the NBS

### Herfindahl-Hirschman-Index (HHI)

- Indicator on concentration of exports by products
- Maximum value = 1

### HHI for MDA exports to the EU

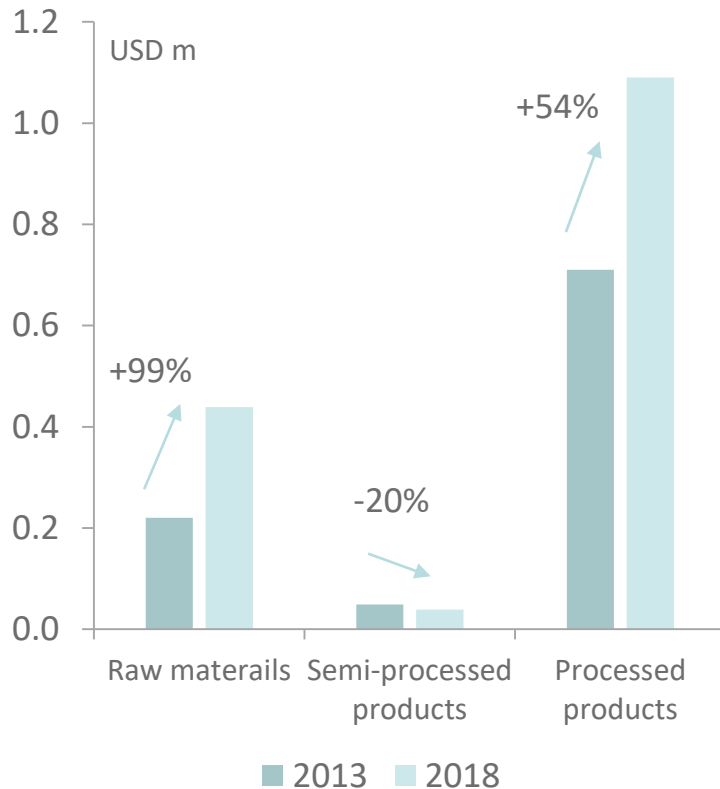
- 2013: 0.045
- 2018: 0.047
- Relative change 2018/2013: +4%

→ **Slight increase in concentration**

**Thus:** DCFTA did so far not contribute to a diversification of Moldova's exports

## vi. Change in exports by level of processing

MDA exports to the EU, 2018 vs 2013,  
by the level of processing



Source: WITS, authors' estimated based on  
MTN classification

### Exports to the EU by level of processing

Share of raw materials

- Increase from 23% to 28% of total

Share of semi-processed products

- Decrease from 5% to 2% of total

Share of processed products

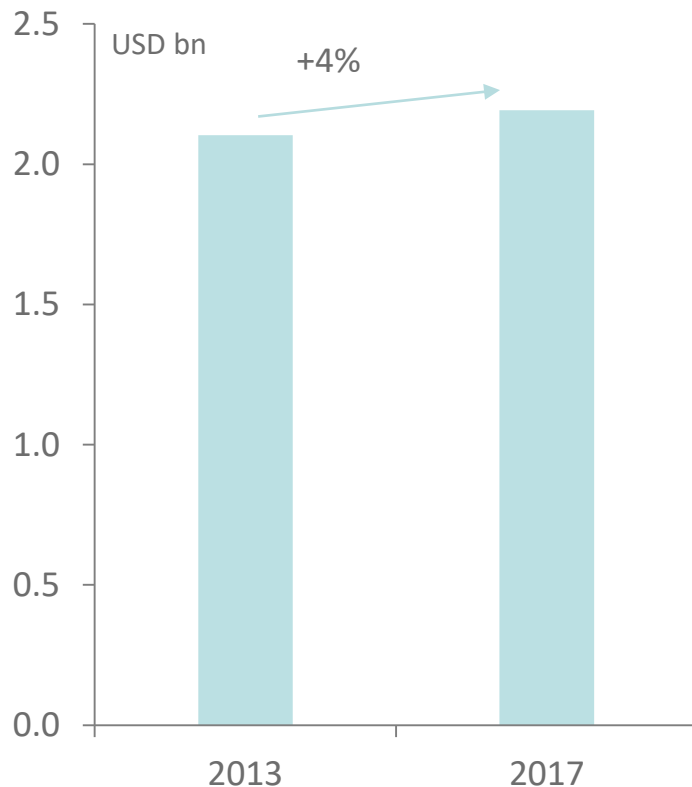
- Decrease from 73% to 70% of total

→ No major change in the high share of  
processed products in exports to the EU

**All in all:** no significant effect of DCFTA on  
the commodity composition of exports

## vii/viii. FDI stock in USD and as a share of total FDI

FDI stock (equity capital) from the EU,  
2017 vs. 2013, eop



Source: National Bank of Moldova

### vii. FDI stock from the EU

- 2013: USD 2.1 bn
- 2017\*: USD 2.2 bn
- Moderate increase by 4%

### viii. Share of EU in FDI stock

- 2013: 63% of total
- 2017\*: 66% of total
- Significant increase by 3 pp

**All in all:** moderate effect of DCFTA on FDI

\*Data for 2018 not available yet

# 5. Georgia

## Exports

- i. Export to the EU in USD terms
- ii. Exports to the EU in constant prices
- iii. Exports to the EU as a share of total exports

## Commodity composition of exports

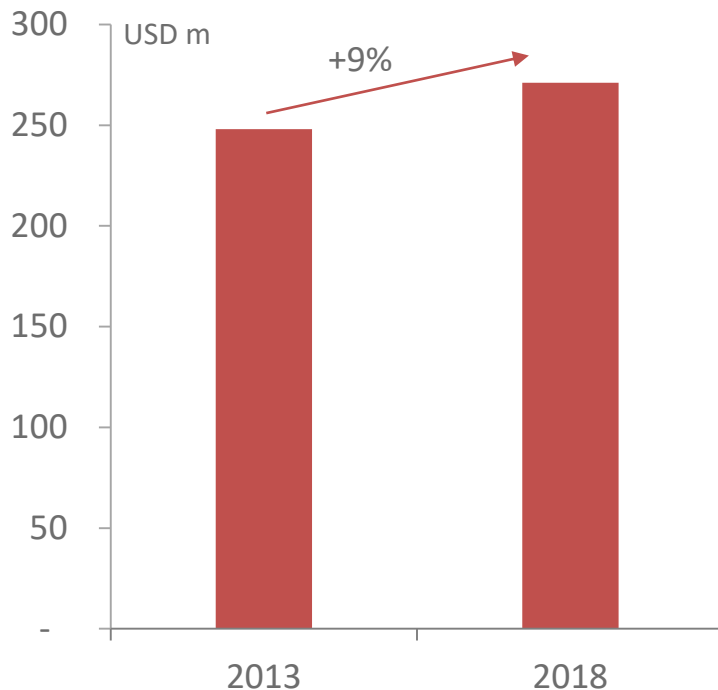
- iv. Share of new products in total exports to the EU
- v. Degree of concentration of exports to the EU
- vi. Change in exports to the EU by level of processing

## FDI

- vii. FDI stock in USD terms
- viii. Share of EU in total FDI stock

## i. Exports to EU in USD terms

### Exports of goods to the EU, 2018 vs 2013



**Source:** WITS, authors' estimates, exports of domestically produced goods, excl. hazelnuts and copper ores

### Definition of exports to EU

- Exports of domestically produced goods, i.e. excl. re-exports
- Hazelnuts excluded because of stink bug problem (see Annex 2)
- Copper ore excluded because of discrepancies in national statistics

### Exports to the EU

- 2013: USD 248 m
- 2018: USD 271 m

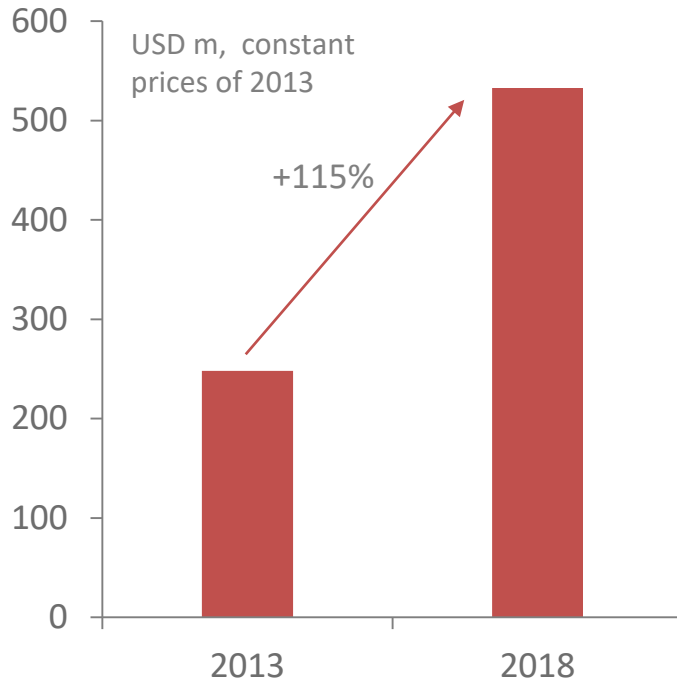
→ **Small rise by 9% (from a low level)**

### Main changes

- Higher exports of non-crude petroleum products, wine and mineral water
- Drop in exports of fertilizers

## ii. Exports to the EU in constant prices

### Exports to the EU in constant prices, 2018 vs 2013



**Source:** WITS, authors' estimates; exports of domestically produced goods, excl. hazelnuts and copper ores

### Next step

- Removal of effect of price changes
- How? Using constant prices of 2013

### Exports to EU (in constant prices of 2013)

- 2013: USD 248 m
- 2018: USD 533 m

→ **Very strong increase by 115%**

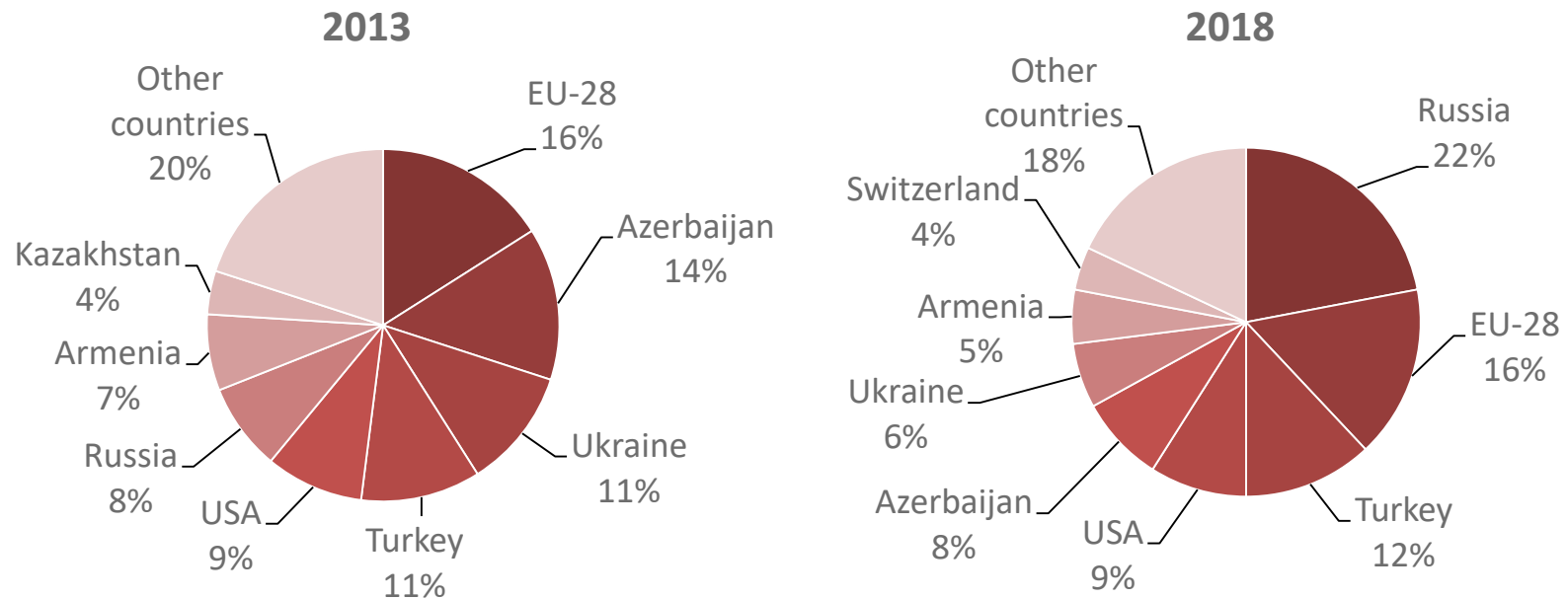
### Reason for difference USD & real terms

- Prices for key exports dropped
  - Medium oils and preparations: -88%
  - Ammonium nitrate: -31%
  - Ferro-silico-manganese: -20%

**Interpretation:** very strong rise of real exports to the EU, from a rather low level



### iii. Exports to the EU as a share of total exports



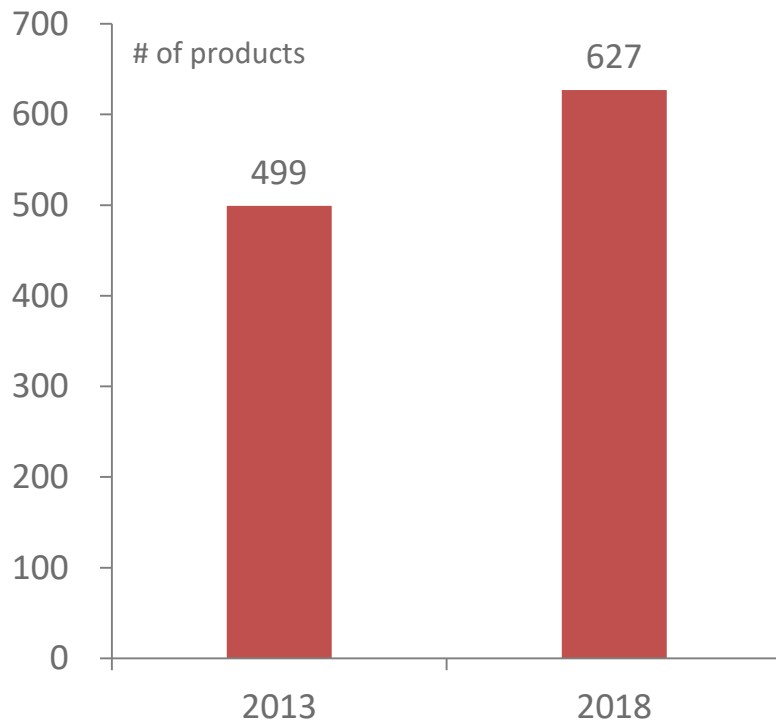
Source: WITS, authors' estimates; exports of domestically produced goods, excl. hazelnuts and copper ores

- Share of EU as an export destination stayed flat at 16%; **no change**
- Major constraining factor: surge of exports to RUS, after RUS lifted sanctions on agrofood products from GEO imposed in 2005/2006

**All in all:** moderate effect of DCFTA on exports

## iv. Share of new products in total exports to the EU

### Number of GEO exports products to the EU, 2018 vs 2013



■ Number of products, HS 6-digit, export value > USD 1,000

Source: WITS, authors' estimates; exports of domestically produced goods, excl. hazelnuts and copper ores

### Number of exported goods to the EU

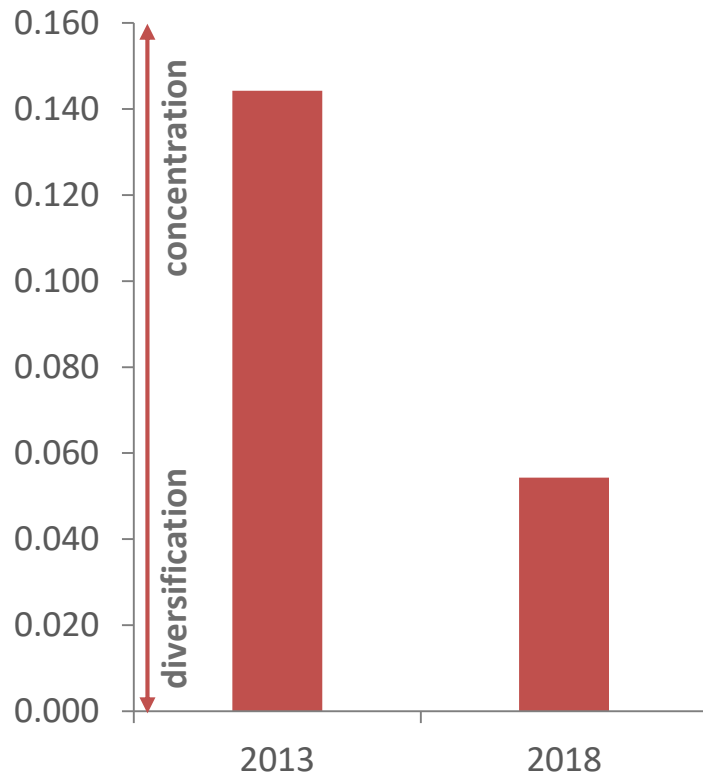
- 2013: 499 products
- 2018: 627 products
- **Net increase by 128 products**

### Share of new products in exports to EU, 2018 vs 2013

- Gross number of new goods: 333
  - Export value: USD 31 m
  - Share in value of exports to EU: 12%
- 
- **Active appearance of new products, playing a noticeable role in total exports**

## v. Degree of concentration of exports to the EU

HH Index on concentration of GEO exports to EU, 2018 vs 2013



Source: WITS, authors' estimate, exports of domestically produced goods at 6-digit HS, excl. hazelnuts and copper ores

### Herfindahl-Hirschman-Index (HHI)

- Indicator of concentration of exports by products; max = 1

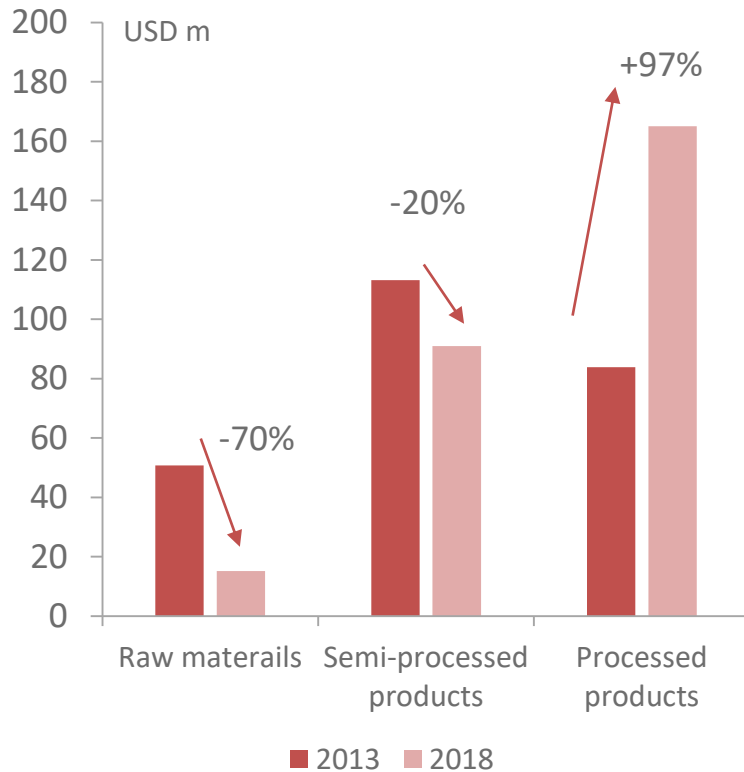
### HHI for GEO exports to the EU

- From 0.094 in 2013 to 0.053 in 2018
- Relative change 2018/2013: -43%
- **Significant change**

**Thus:** DCFTA seems to have stimulated diversification of exported products

## vi. Change in exports by level of processing

GEO exports to the EU, 2018 vs 2013,  
by the level of processing



Source: WITS, authors' estimated based on WTO multilateral trade negotiations classification, exports of domestically produced goods, excl. hazelnuts and copper ores

### Exports by level of processing

Share of raw materials

- Decrease from 20% to 6% of total

Share of semi-processed products

- Decrease from 46% to 34% of total

Processed products

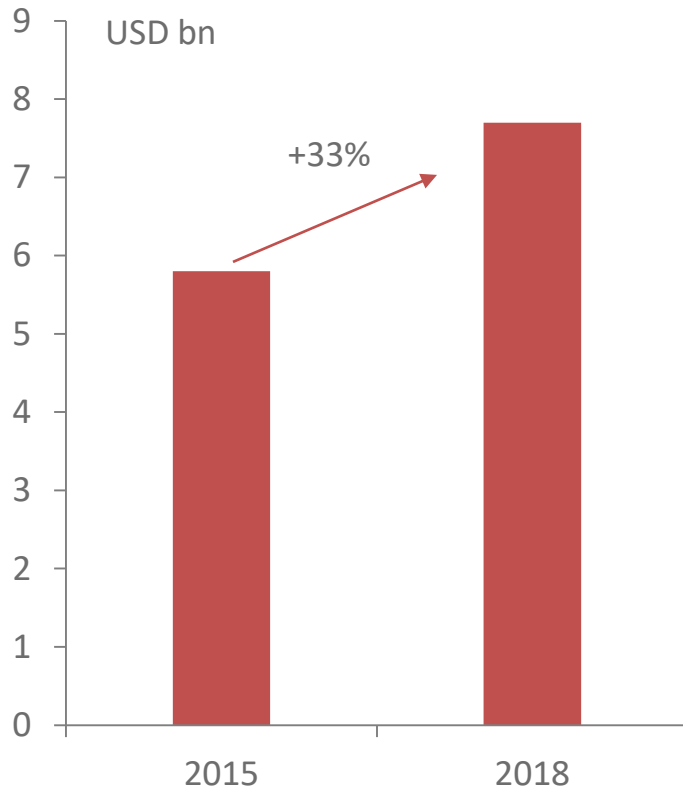
- Increase from 34% to 61% of total

→ **Swift of exports towards processed products thanks to expansion of exports of non-crude petroleum products, beverages and pet furniture**

**All in all: likely strong positive effect of DCFTA on commodity composition of exports**

## vii/viii. FDI stock in USD and as a share of total FDI

FDI stock (equity capital) from the EU,  
2018 vs. 2015, eop



Source: Geostat

### vii. FDI stock from the EU

- 2015\*: USD 5.8 bn
  - 2017: USD 7.7 bn
- **Strong increase by 33% of FDI stock from EU**

### viii. Share of EU in FDI stock

- 2015\*: 44% of total
  - 2017: 44% of total
- **Constant share of FDI from the EU; no change**

**All in all:** moderate effect of DCFTA on FDI

\* Not available for 2013

## 6. Comparison of DCFTA effect by indicators

2018 vs. 2013		Ukraine		Moldova		Georgia	
#	Indicator	Change	Assessment	Change	Assessment	Change	Assessment
i.	Exports in USD terms	20%	+	60%	+++	9%	0
ii.	Exports in constant prices of 2013	54%	++	73%	+++	115%	+++
iii.	Exports to EU as % of total exports	15pp	+++	18pp	+++	0pp	0
iv.	Share of new products in total exports	2%	+	3%	+	12%	++
v.	Degree of concentration	-21%	+	4%	0	-43%	++
vi.	% of exports of processed products	9pp	+	-3pp	0	27pp	++
vii.	FDI stock from EU in USD terms	-39%	na	5%*	+	33%**	++
viii.	Share of FDI stock from EU	1pp	+	3pp*	++	0 pp**	0

\* 2017 vs 2013; \*\* 2018 vs 2015

# Comparison by categories

Categories, 2018 vs 2013	Ukraine	Moldova	Georgia
Exports	++	+++	+
Commodity composition of exports	+	0	++
FDI	0	+	+

## Summing up

- DCFTA seems to have a rather strong effect on exports; this is particularly the case for Moldova and Ukraine
- DCFTA also seems to have a positive influence on the commodity composition of exports, as shown by the experience in GEO and UKR
- The effect of the DCFTA on FDI is so far limited and only to be observed in Moldova and Georgia

Thus: main effect of DCFTA relates to exports

# 7. Conclusions

1. Economic indicators suggest an overall positive effect of DCFTA
2. At the same time: major differences between countries
3. Main effect of DCFTA relates to exports
4. Effect on FDI rather weak; FTAs no substitutes for deficiencies in inv. climate
5. Moldova and Ukraine became economically more integrated with the EU
6. Georgia maintains strong links with neighbours due to its geographical situation
7. DCFTA and trade with Russia
  - UKR/MDA: trade with Russia strongly decreased since 2013
  - Main reason: Russian imposed trade sanctions on goods from UKR and MDA
  - GEO: trade with Russia increased strongly since 2013
  - Main reason: lifting of Russian sanctions on goods from GEO



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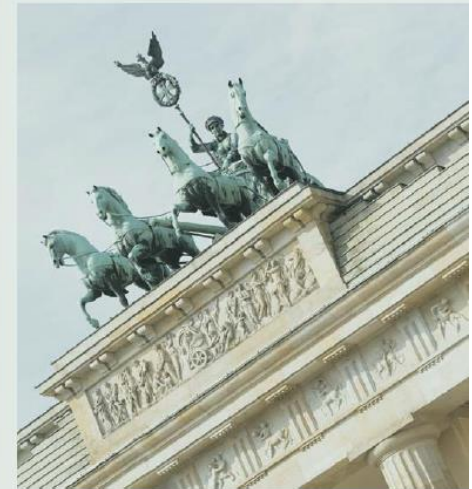
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Annex 7: shares of top Moldovan export products to the EU

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Annex 9: sectoral structure of FDI stock from EU in Ukraine

Annex 10: sectoral structure of FDI stock from EU in Moldova

# Annex 1: level of integration with EU in 2013 and 2018

	2013		
Indicator	Ukraine	Moldova	Georgia*
Exports to EU as % of total exports	27%	56%	21%
Number of products exported to the EU	2,610	927	499
Degree of concentration of exports to EU	0.035	0.045	0.144
% of exports of processed products	32%	73%	23%
Share of FDI stock from EU	76%	63%	44%
*including hazelnuts; for that reason, numbers differ from other tables			
	2018		
Indicator	Ukraine	Moldova	Georgia*
Exports to EU as % of total exports	42%	74%	17%
Number of products exported to the EU	2,868	1,084	627
Degree of concentration of exports to EU	0.028	0.047	0.054
% of exports of processed products	41%	70%	54%
Share of FDI stock from EU	77%	66%	44%
*including hazelnuts; for that reason, numbers differ from other tables			

# Annex 2: calculation of exports in constant prices

## Methodology

**Step 1.** Remove outliers, i.e. too small value and/or volume of exports distorting unit price estimates. To remove outliers, we set export thresholds for each HS 6-digit sub-heading. Unit value of exports is not estimated if thresholds are violated.

- Volume threshold: min 10 kg
- Value threshold: min USD 1,000 (for Ukraine: min USD 5,000)

**Step 2.** For base year (2013), estimate of unit value of (a) exports to the EU (UV-eu) and (b) exports of total exports (UV-world)

**Step 3.** Estimate exports in constant prices for each HS 6-digit sub-heading:

- If  $UV\text{-}eu > 0$ ,  $UV\text{-}eu$  is multiplied by volume of exports to EU in 2018
- If  $UV\text{-}eu > 0$ , but  $UV\text{-}world > 0$ ,  $UV\text{-}world$  is multiplied by volume of exports to EU in 2018

# Annex 3: the issue of re-exports in MDA

## Exports of goods to the EU, 2018 vs. 2013



**Source:** WITS, authors' estimates, "classical" re-exports as defined by the NBS

## Three exports concepts (following WITS)

- Gross exports
- Exports of domestically produced goods
- Re-exports

**Moldova:** re-exports are significant

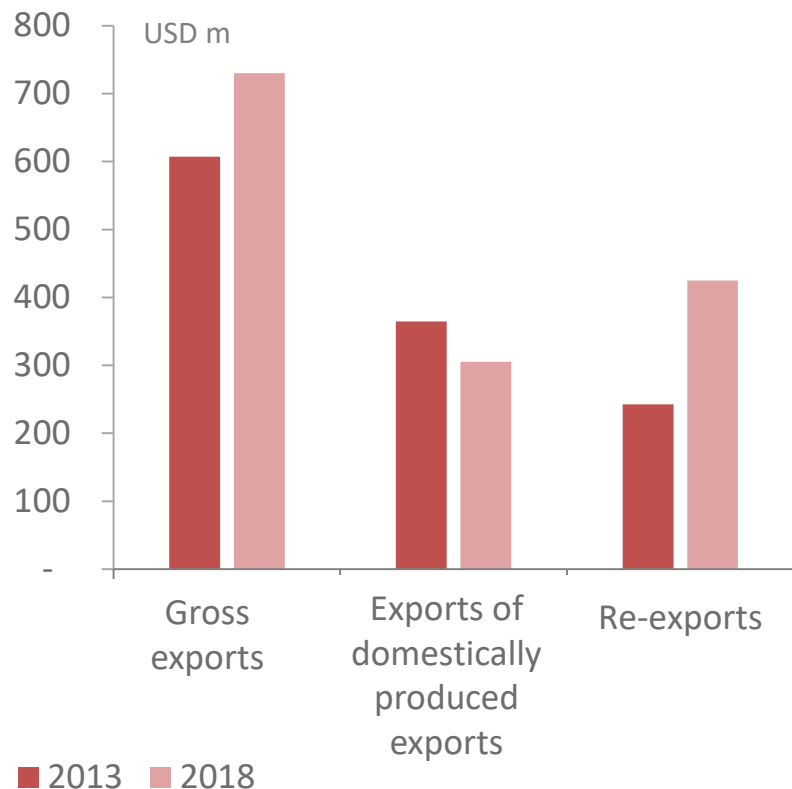
## Implication for our analysis

- Only domestically produced goods are relevant, since re-exports do not depend on trade agreements

**Thus:** focus here exclusively on exports of domestically produced goods

# Annex 4: the issue of re-exports in Georgia

## Headline exports of goods to the EU, 2018 vs. 2013



**Source:** WITS, authors' estimates, re-exports include copper exports

## Three exports concepts (following WITS)

- Gross exports
- Exports of domestically produced goods
- Re-exports

**Georgia:** re-exports are very significant

## Implication for our analysis

- Only domestically produced goods are relevant, since re-exports do not depend on trade agreements

**Thus:** focus here exclusively on exports of domestically produced goods\*

\* exports of copper ores are considered as re-exports, given their uncertain origin

# Annex 5: the issue of hazelnuts in Georgia

## Traditionally

- Hazelnuts by far the most important GEO export good to the EU
- 2013: hazelnuts accounted for 32% of total GEO exports to the EU

## Years 2017 and 2018

- Stink bug decimated the harvest of hazelnuts in GEO
- As a result, GEO exports of hazelnuts to EU went down by 71% (2018/2013)

## Implications for our analysis

- Strong influence of hazelnuts on export performance to the EU
  - But: stink bug problem has not link whatsoever to DCFTA
  - Thus: necessity to remove special hazelnut issue
- **Decision: exclusion of hazelnuts from export data and analysis**

## Annex 6: shares of top UKR export products to the EU

HS	Description	2013	2018
100590	Maize (excl. seed)	10%	9%
854430	Ignition wiring sets	6%	7%
720712	Semi-finished products of iron/non-alloy steel	10%	6%
260112	Iron ores & concentrates, agglomerated	4%	5%
151211	Sunflower seed oil, crude	2%	5%
120510	Low erucic acid rape/colza seeds	5%	4%
260111	Iron ores & concentrates, non-agglomerated	6%	4%
720851	Flat-rolled products of iron/non-alloy steel, hot-rolled	2%	2%
230630	Solid residues from extraction of sunflower seeds	3%	2%
720230	Ferro-silico-manganese, in granular/powder form	1%	2%
	Other products	52%	55%

Source: UN ComTrade, WITS

- The list of key export products to the EU remained quite stable, with maize being No.1, but the sequencing of products changed
- Ignition wiring sets – a part of the EU automotive value chain - gained importance surpassing metals and ores
- Higher share of “other products” suggests a diversification of exports



## Annex 7: shares of top MDA export products to the EU

HS	Description	2013	2018
854420	Co-axial cable & other co-axial electric conductors	15%	12%
854430	Ignition & other wiring sets used in vehicles	6%	12%
120600	Sunflower seeds	5%	8%
080232	Walnuts, shelled	8%	5%
854449	Other electric conductors, for a voltage not > 1,000 V, not fitted with connectors	0%	5%
100590	Maize (corn)	1%	4%
100190	Wheat (other than durum wheat)	2%	4%
151211	Sunflower oil, crude	4%	4%
701090	Carboys, bottles & other containers, of glass	2%	2%
854442	Other electric conductors, for a voltage not > 1,000 V, fitted with connectors	0%	2%
	Other products	56%	42%

Source: WITS, authors' estimates; exports of domestically-produced goods, excluding (classical) re-exports as defined by the NBS

- The structure of the Moldavian exports to the EU remained quite stable
- Cables, ignition wiring sets and conductors - a part of the EU automotive value chain - gained importance surpassing agricultural and food products
- Lower share of “other products” suggests a stronger concentration of exports

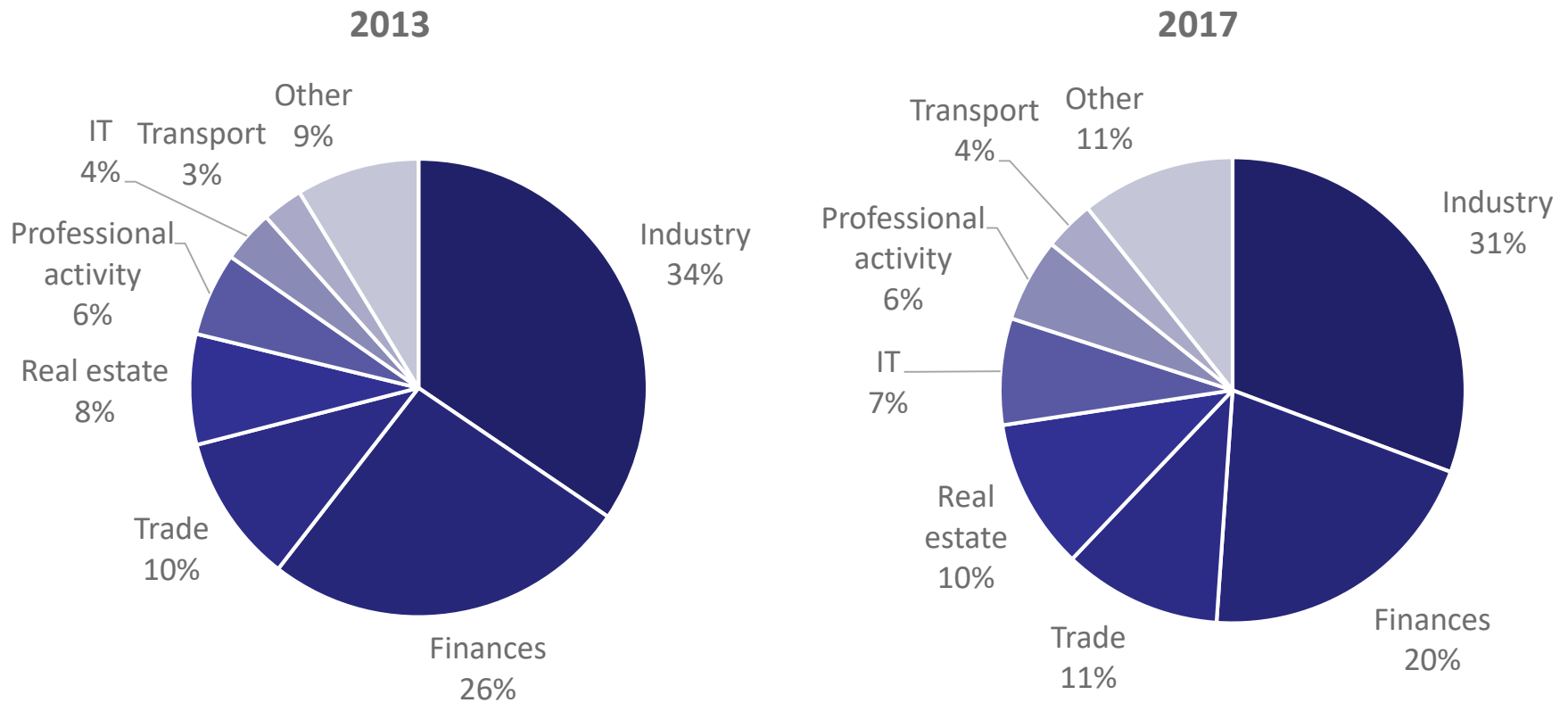
## Annex 8: shares of top GEO export products to the EU

HS	Description	2013	2018
310230	Ammonium nitrate	14%	15%
080222	Fresh or dried hazelnuts	32%	11%
271019	Medium oils and preparations, of petrol. or bitum. minerals	0%	7%
220421	Wine of fresh grapes	3%	6%
220820	Spirits obtained by distilling grape wine	5%	6%
220110	Mineral waters and aerated waters	2%	5%
720230	Ferro-silico-manganese	7%	4%
442190	Other articles of wood	0%	3%
200819	Nuts and other seeds, prepared or preserved	1%	2%
730419	Line pipe, seamless, of iron or steel	1%	2%
	Other products	35%	39%

Source: WITS, authors' estimates; only domestically produced goods, **including** hazelnuts, excluding copper ores

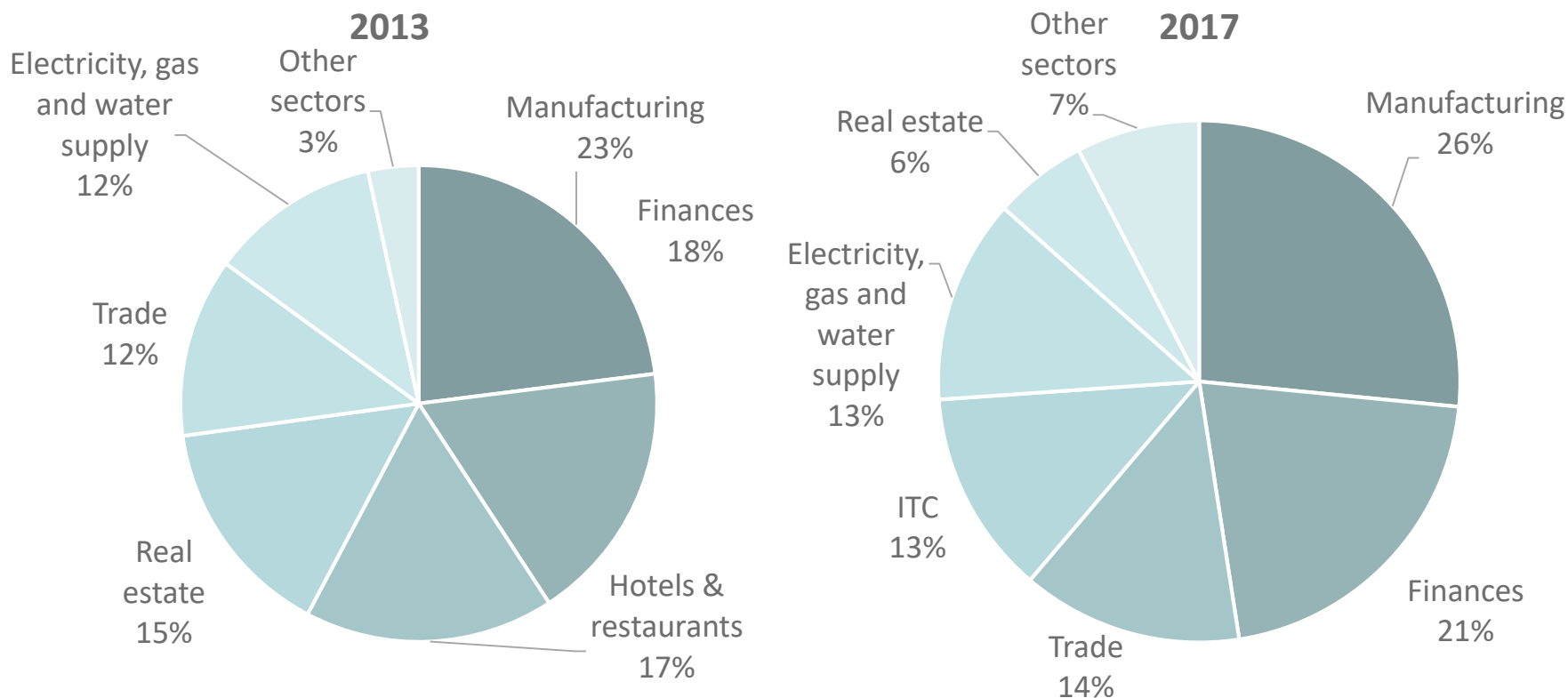
- The structure of exports to the EU changed considerably after the drop in exports of hazelnuts due to poor harvest in 2017 and in 2018
- Wine, spirits, mineral water and new products such as petroleum products (not crude) and articles of wood (pet furniture) increased their share in exports
- Change in product structure to a large extent a by-product of the hazelnut decline

# Annex 9: sectoral structure of FDI stock from EU in UKR



- Some changes in sectoral structure of FDI stock from the EU
- Significant decline of FDI in finance, higher share of IT and other sectors

# Annex 10: sectoral structure of FDI stock from EU in MDA



- Changes in sectoral structure of FDI stock from the EU
- Significant decline of FDI in real estate and hotels & restaurants, higher share of IT