

# DCFTA Implementation in Ukraine: What Happened to Trade and FDI ?

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the EU Association Agreement

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## DCFTA in a nutshell

- **Deep and Comprehensive Free Trade Area (DCFTA)** is a part of the **Association Agreement with the EU**
- **AA/DCFTAs** with GE, MD and UA were negotiated since 2008/2010/2012 and signed during 2014, provisionally in force since 2016.
- **DCFTA** covers:
  - ✓ **Trade-related aspects:** conventional FTA aspects focusing on reduction of tariff duties and rules of origin;
  - ✓ **‘Deep’ aspects:** relate to non-tariff barriers (NTBs), including food safety and SPS measures, technical standards, national treatment, public procurement, services liberalization and customs administration;
  - ✓ **‘Comprehensive’ aspects:** wide scope of approximation to EU ‘acquis’ regarding national treatment, customs and trade facilitation, trade in services, intellectual property, e-commerce, energy market, public procurement, anti-trust and competition, etc.

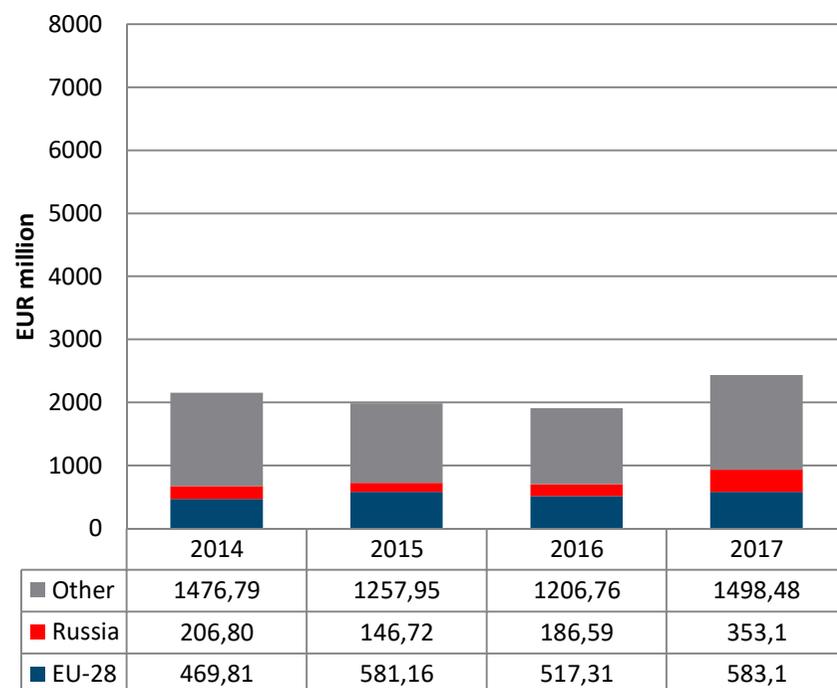
## Additionally, DCFTAs contain

- Approximation to the EU *acquis communautaire* (both current and future)
- Transitory arrangements (e.g. special regime for worn clothing and passenger cars for UKR; gradual elimination of duties in MDA and UKR), etc.
- Temporary (during 2014-2015) autonomous concession of the preferential access to the EU market
- Barriers to trade: tariff rate quotas (TRQs), TBTs and SPS regulations.

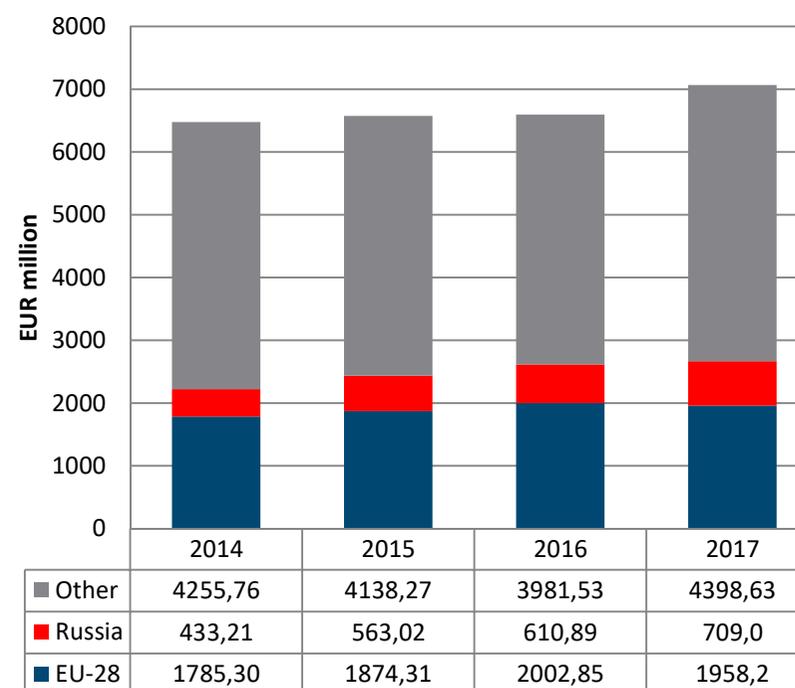
## Recent foreign trade developments: Georgia

- Exports to the EU down by 10% in 2014-2016, yet up by 16% in 2017
- Imports from the EU down by 7% in 2014-2016, and flat in 2017
- Persisting trade deficits: EUR 4.5 billion in 2017 (of which EUR 1.5 with the EU)

### Georgia - exports



### Georgia - imports

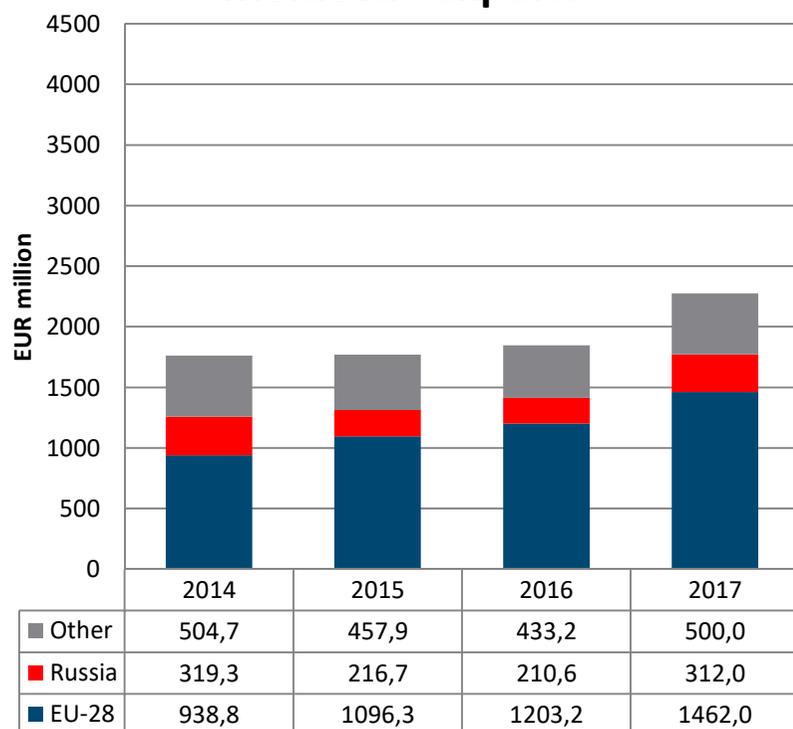


Source: National statistics.

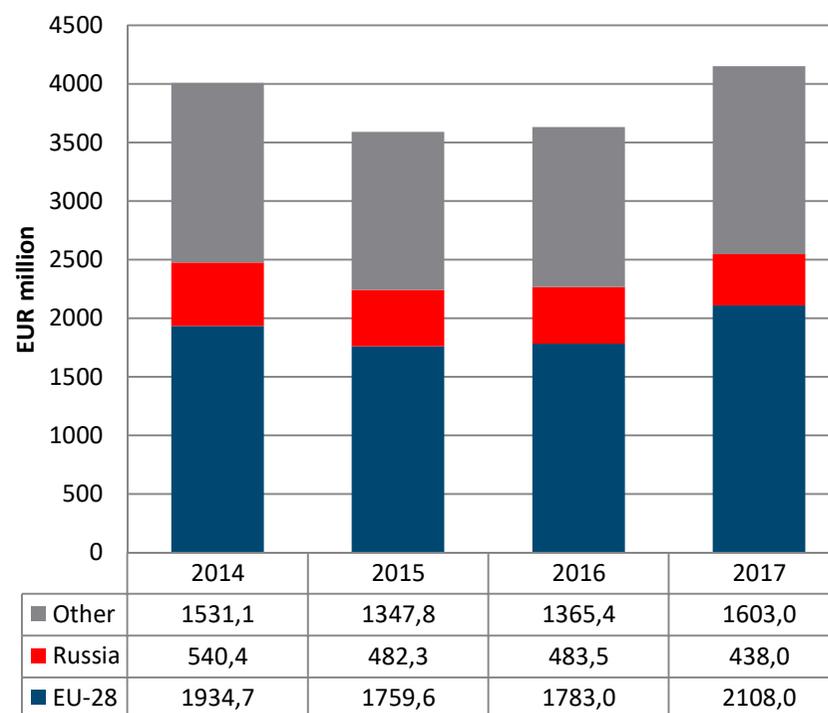
## Recent foreign trade developments: Moldova

- Exports to the EU up by 28% in 2014-2016, up by another 22% in 2017
- Imports from the EU down by 8% in 2014-2016, up by 18% in 2017
- Widening trade deficits: EUR 1.9 billion in 2017 (of which EUR 0.6 with the EU)

### Moldova - exports

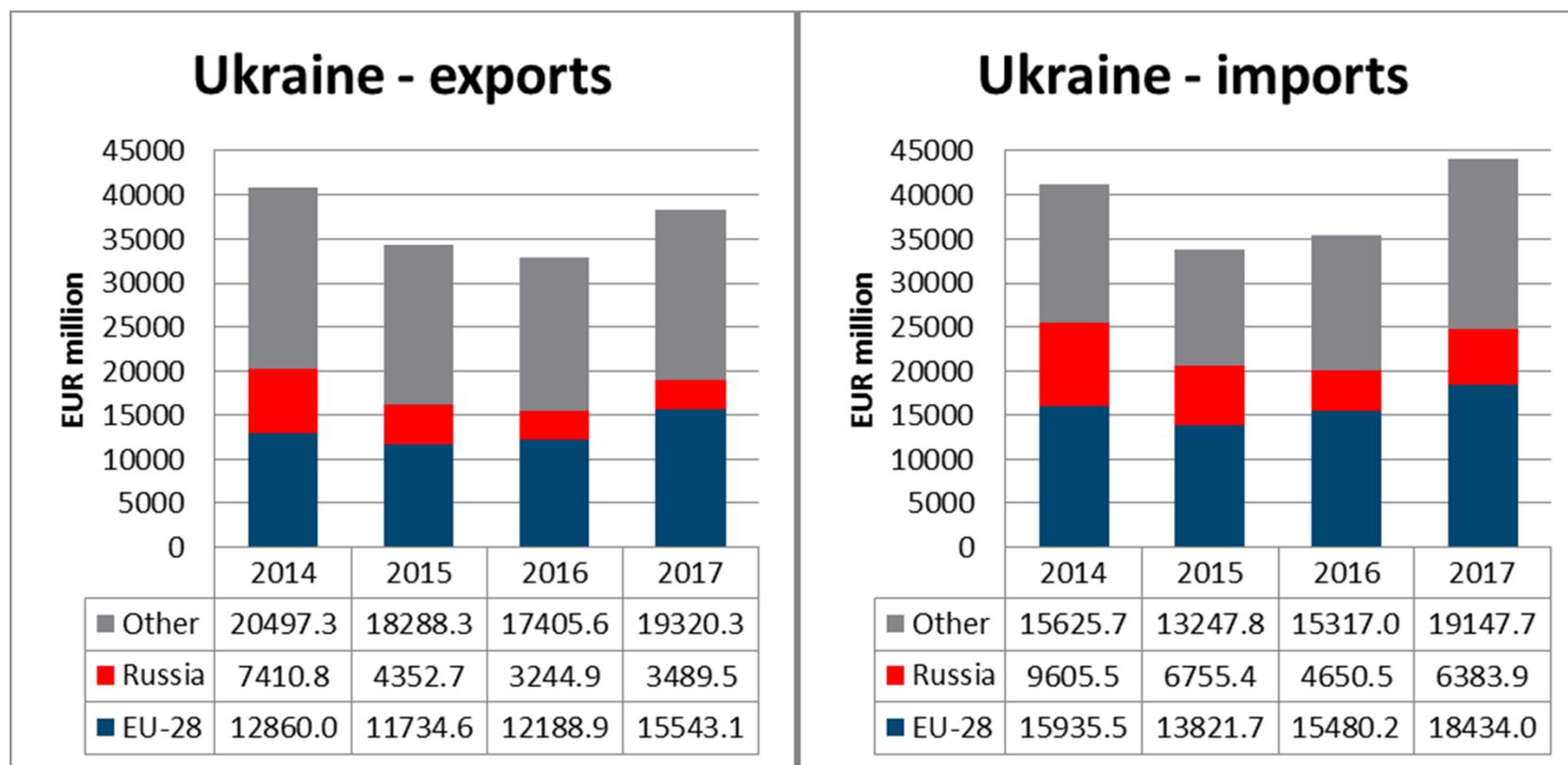


### Moldova - imports



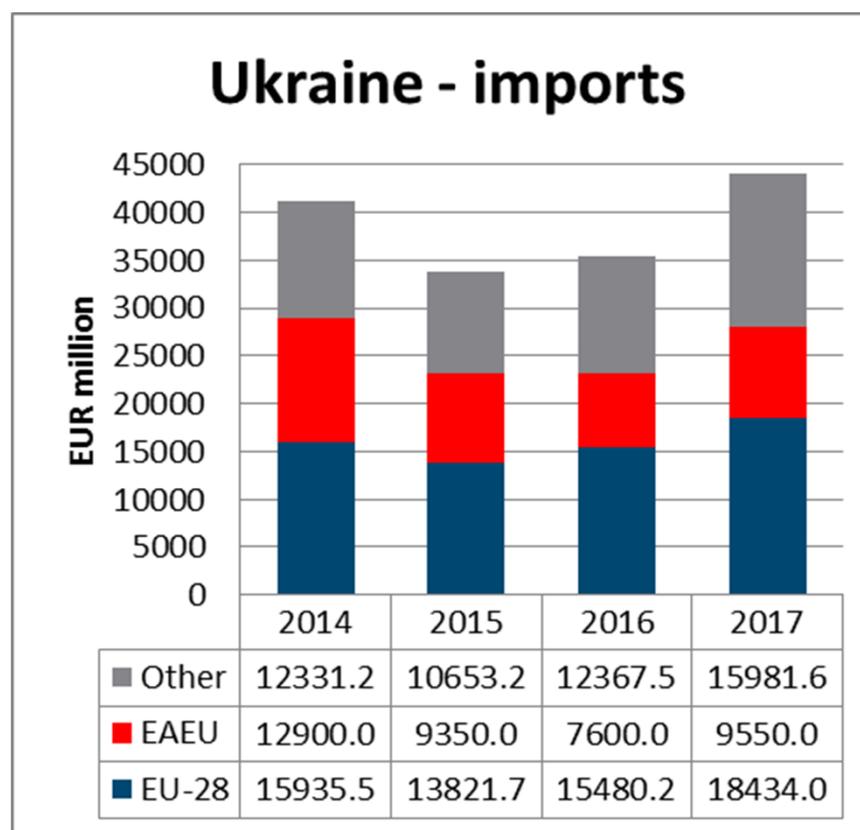
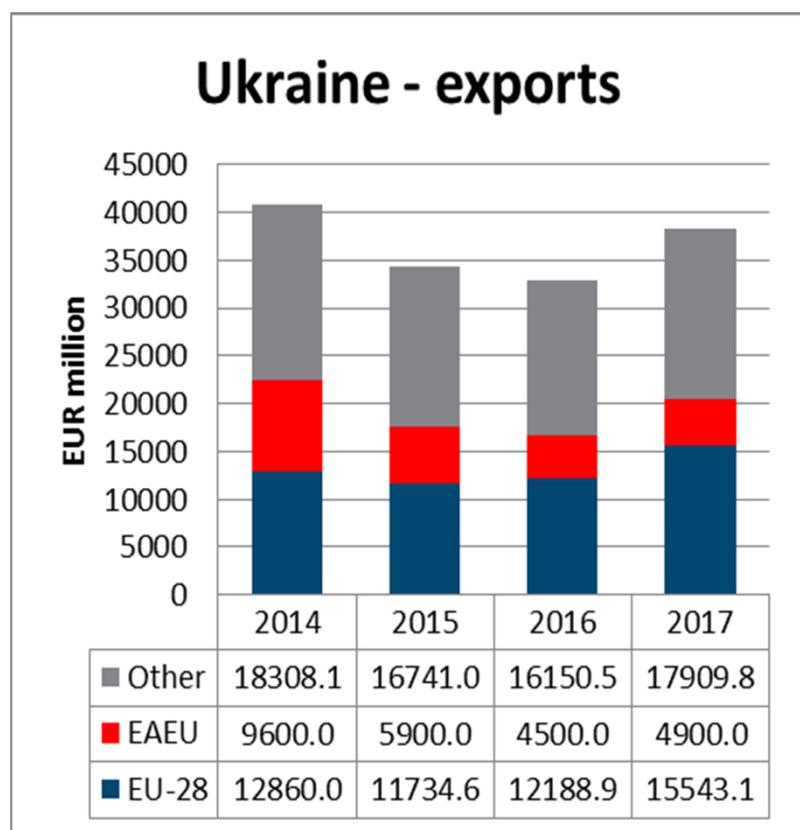
## Recent foreign trade developments: Ukraine

- Exports to the EU down by 5% in 2014-2016, yet up by 27% in 2017
- Imports from the EU down by 3% in 2014-2016, yet up by 19% in 2017
- Widening trade deficits: EUR 5.6 billion in 2017 (of which EUR 2.9 bn with the EU)

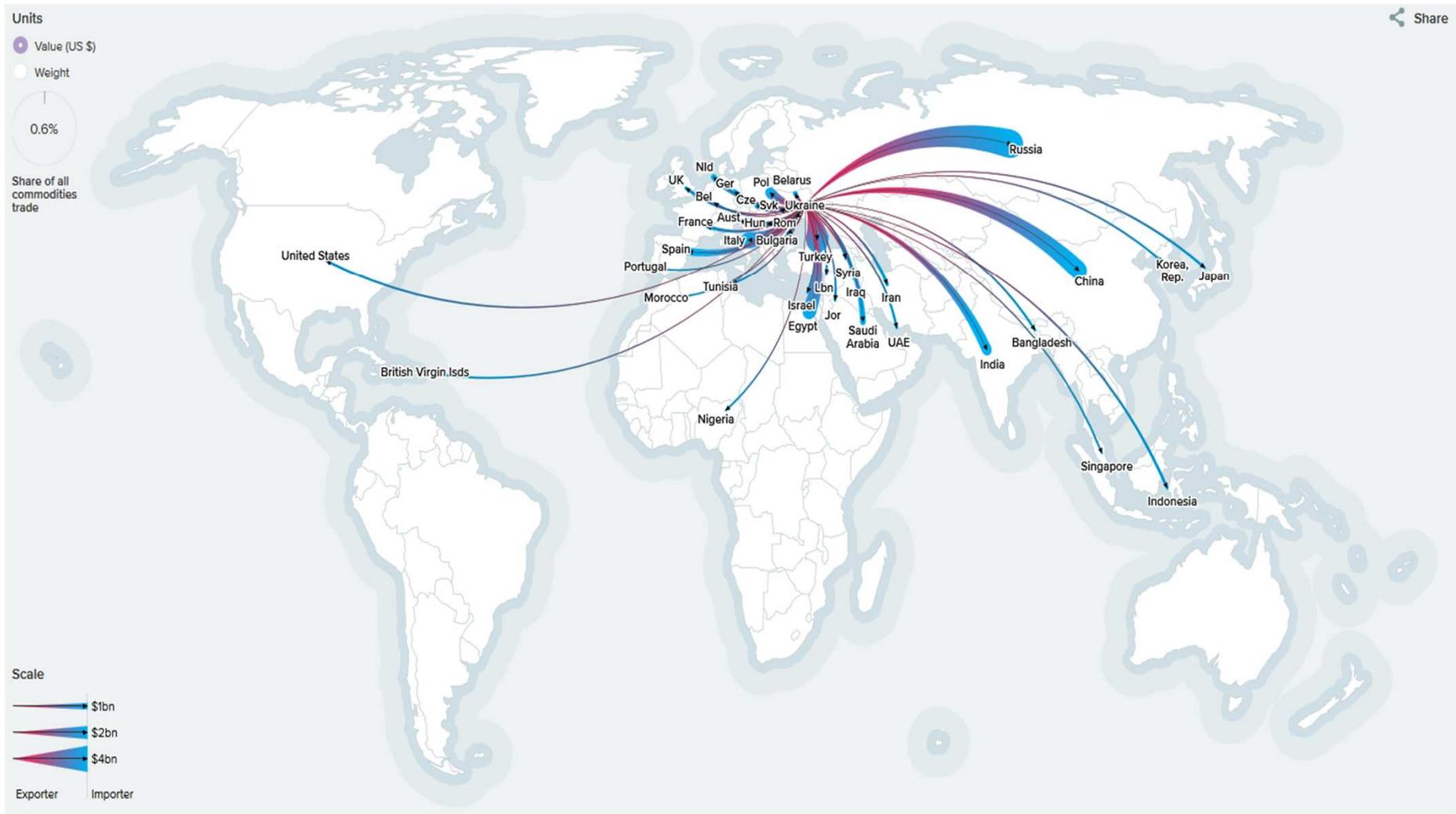


## Recent foreign trade developments: Ukraine

- Exports to the EU down by 8% in 2013-2015, yet up by 32% in 2015-2017
- Imports from the EU down by 33% in 2013-2015, yet up by 33% in 2015-2017
- Widening trade deficits: EUR 5.6 billion in 2017 (of which EUR 2.9 bn with the EU)

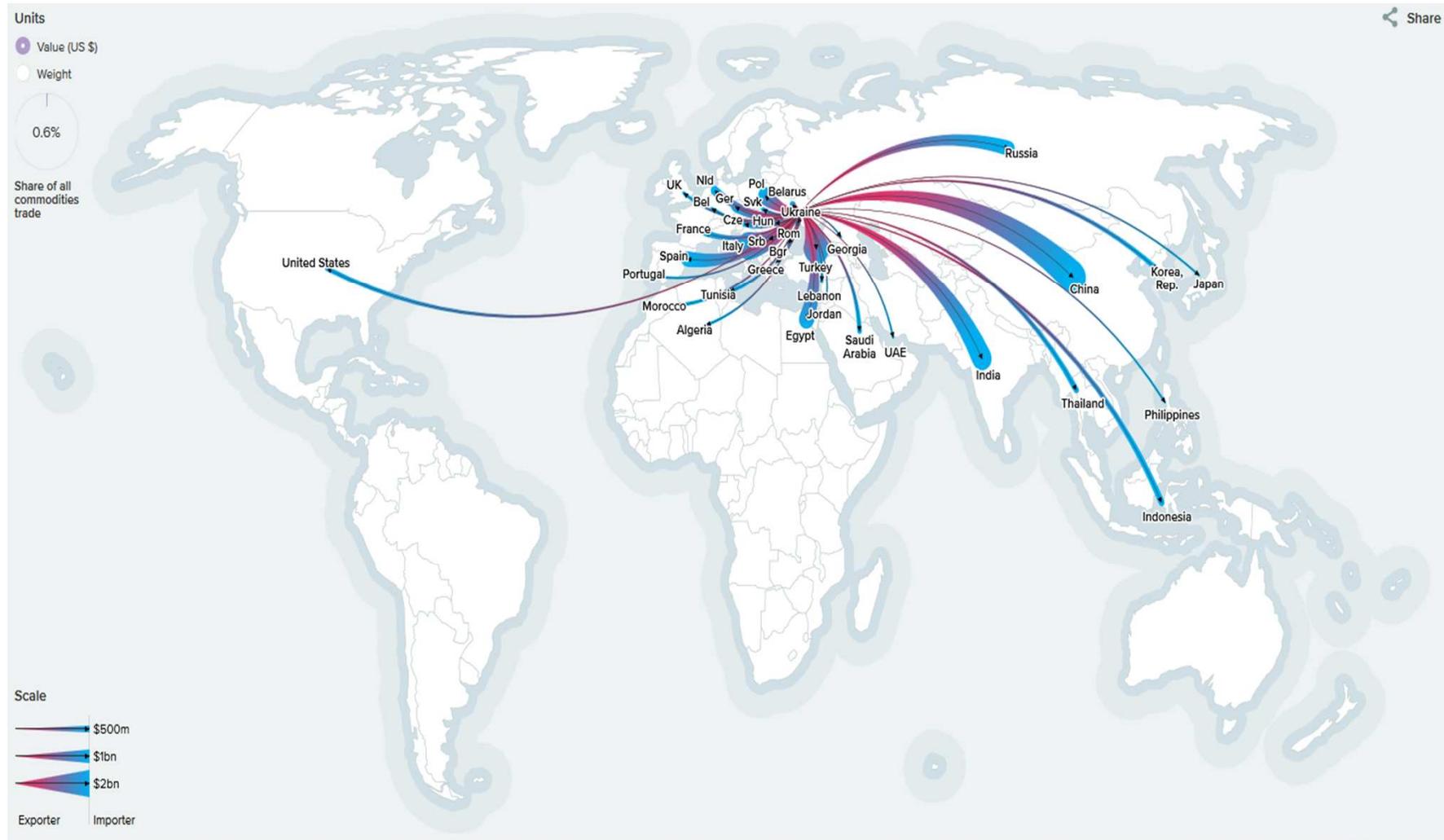


# Ukraine: Main export destinations, 2013 (USD 44.1 bn)



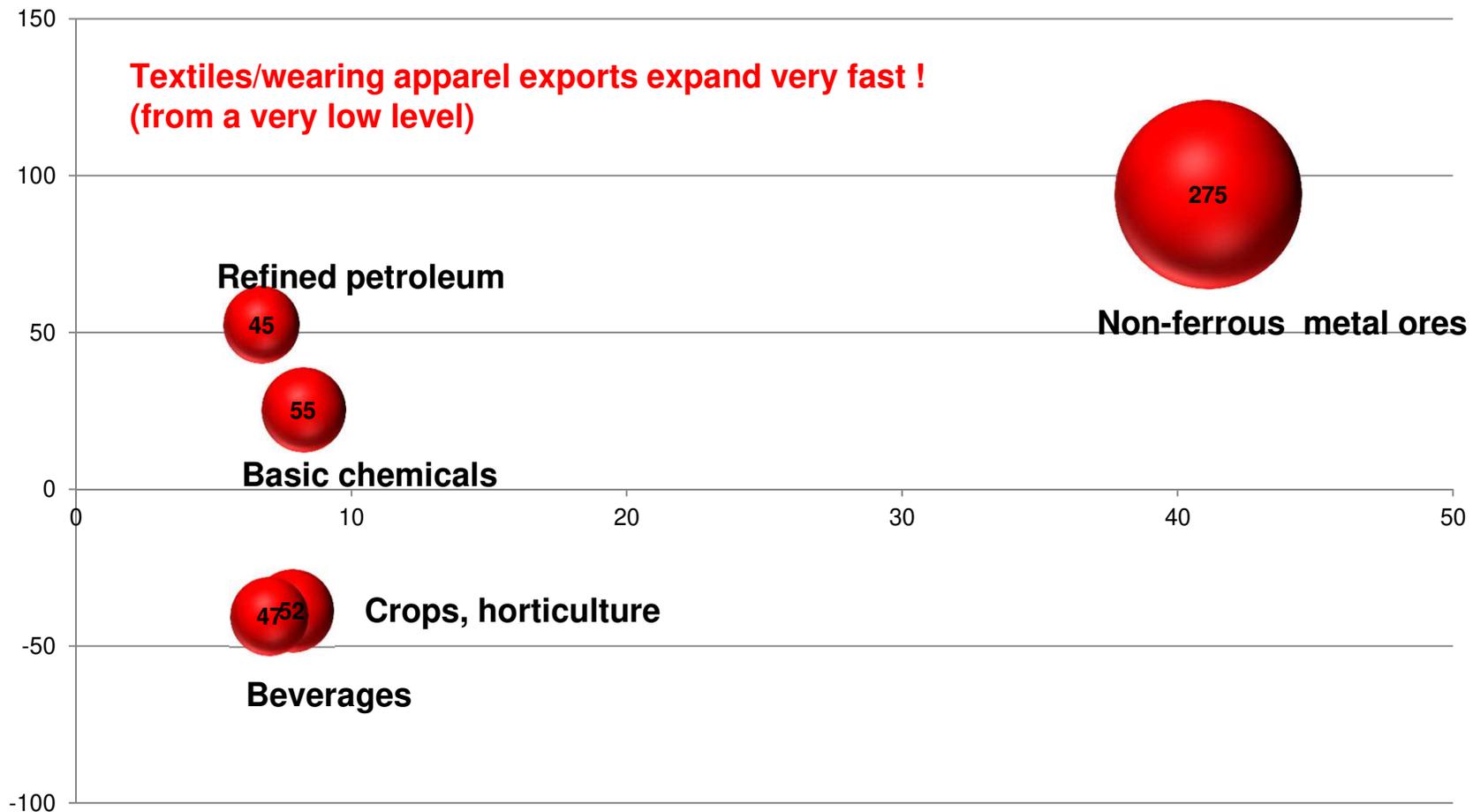
Source: <https://resourcetrade.earth>

## Ukraine: Main export destinations, 2016 (USD 25.4 bn)

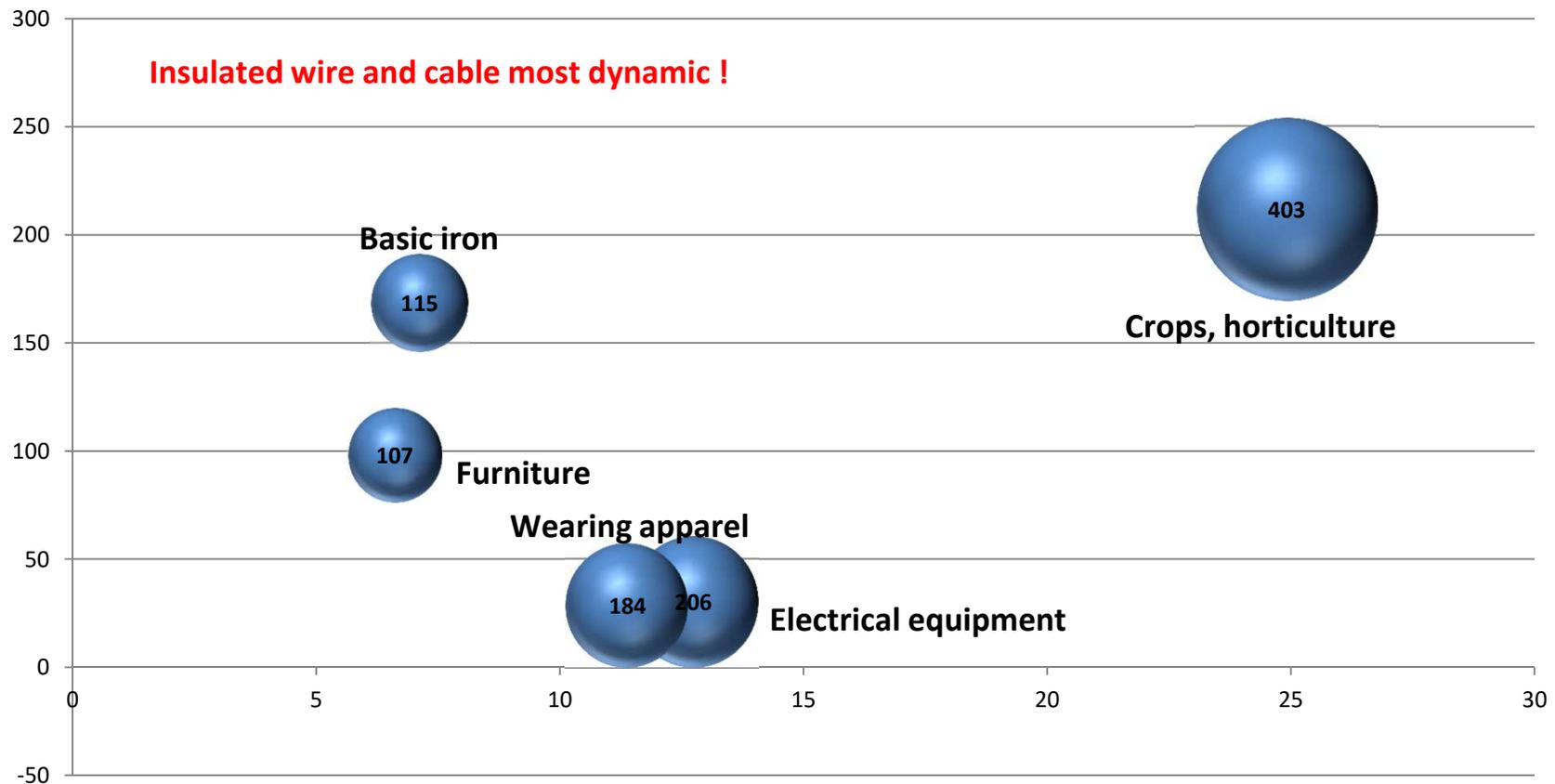


Source: <https://resourcetrade.earth>

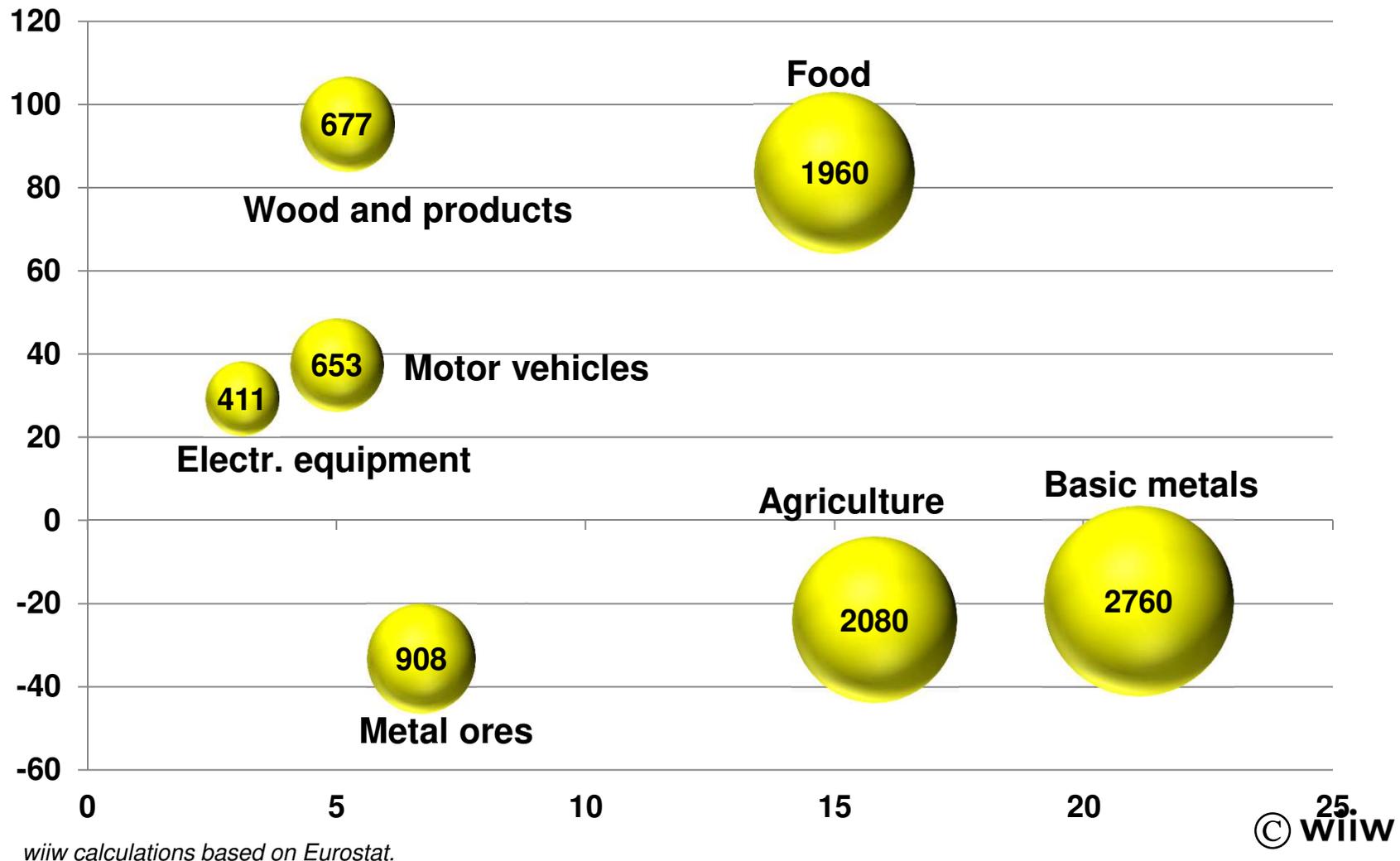
Georgia top 5 exports to the EU, 2017 (23% of the total),  
 growth 2013-2017 (Y: 0.1%) and shares in total (X)



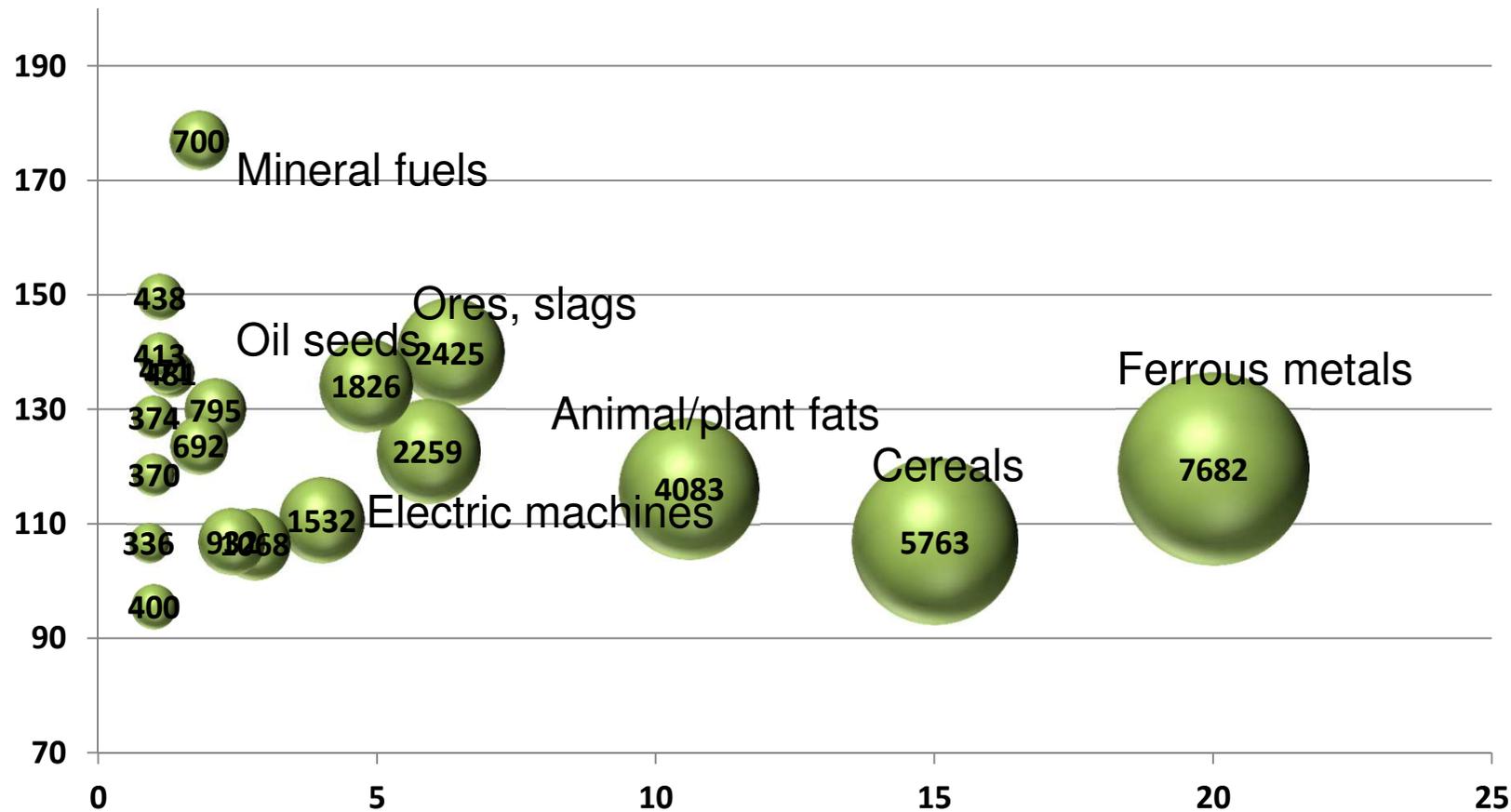
Moldova top 5 exports to the EU, 2017 (64% of the total),  
growth 2013-2017 (Y: 68%) and shares in total (X)



Ukraine top exports to the EU, 2016 (37% of the total),  
annual growth 2013-2016 (Y: -5.7%) and shares in total (X)

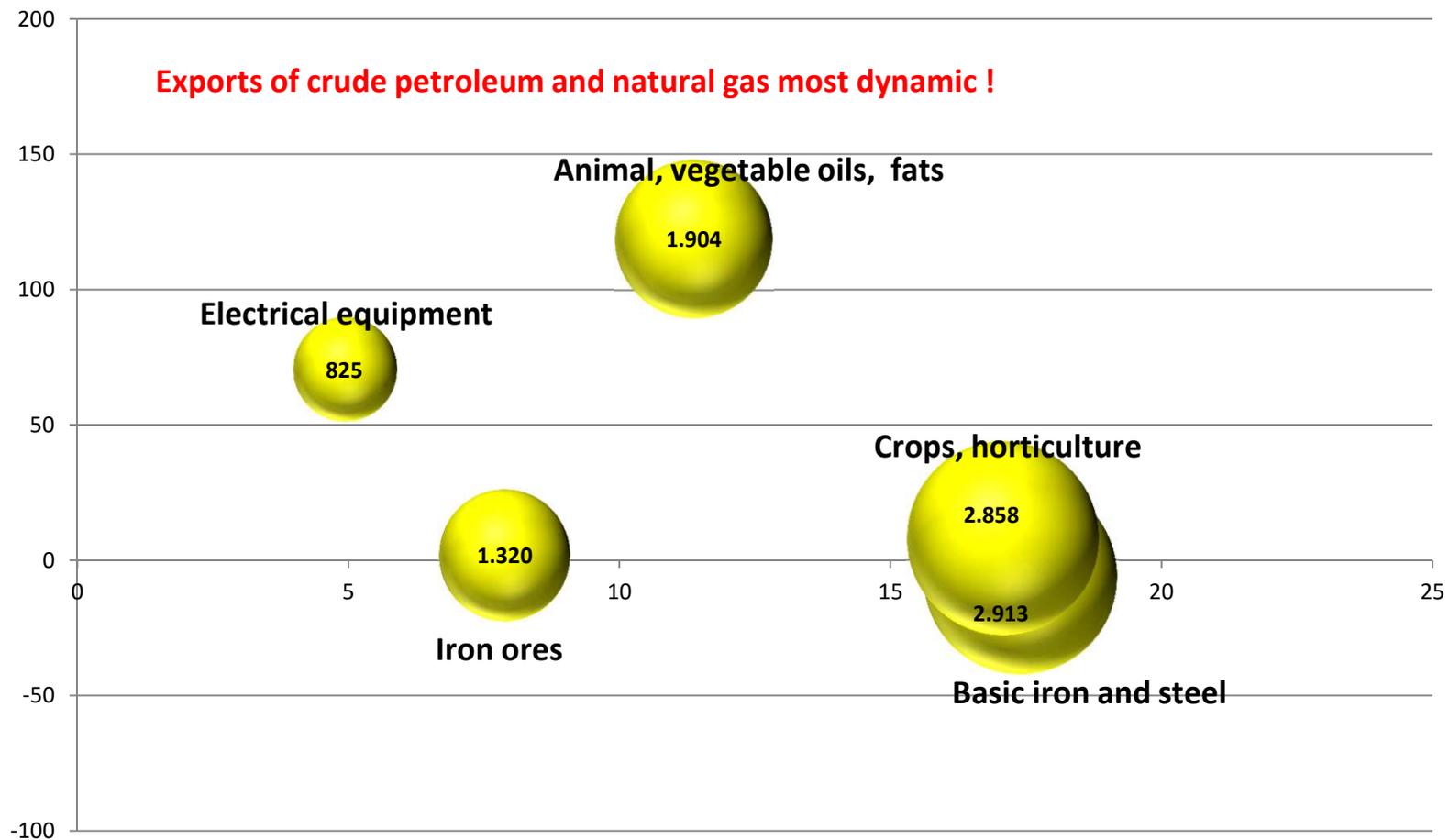


Ukraine top exports, 2017 (40% of the total go to EU)  
 annual growth 2016-2017 (Y: +19%) and shares in total (X)



wiiw calculations based on UKRSTAT.

Ukraine top 5 exports to the EU, 2017 (40% of the total),  
growth 2013-2017 (Y: 20.6%) and shares in total (X)

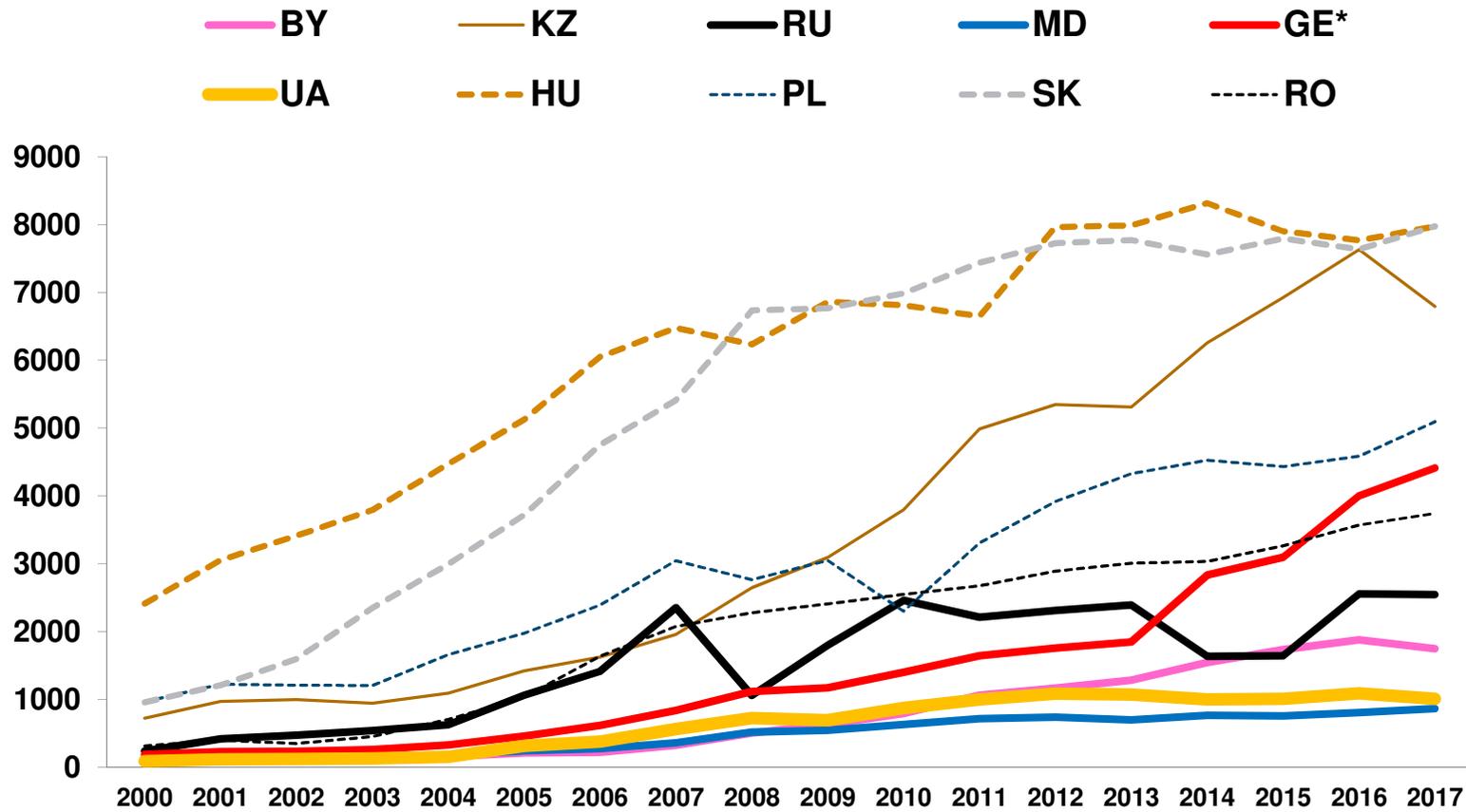


## Summary of restrictions applied by the EU to imports from the DCFTA countries

	Georgia	Moldova	Ukraine
Tariff rate quotas	garlic	tomatoes, garlic, grapes, applies, plums, grape juice	beef, pork, sheep, poultry, milk and dairy products, eggs, honey, garlic, sugars and syrups, wheat, barley, oats, maize, malt, starches, bran, mushrooms, tomatoes, grape and apple juice, corn, cereal products, ethanol, food preps, cigarettes
Anti-circumvention mechanism	meat, dairy products, eggs, cereals, malt, starches, sugars, bran, sweet corn, sugar, cigarettes	meat, dairy products, eggs, cereals, sugars, sweet corn, sugar, cigarettes	No anti-circumvention mechanism
Entry price regulation	tomatoes, cucumbers, artichokes, courgettes, citric fruit, grapes, apples, pears, apricots, cherries, peaches, plums, nectarines, grape juice and must	cucumbers, artichokes, courgettes, citric fruit, pears, apricots, cherries, peaches, nectarines, grape juice	citric fruit, grapes, apples, pears, apricots, cherries, peaches, plums, nectarines, grape juice and must

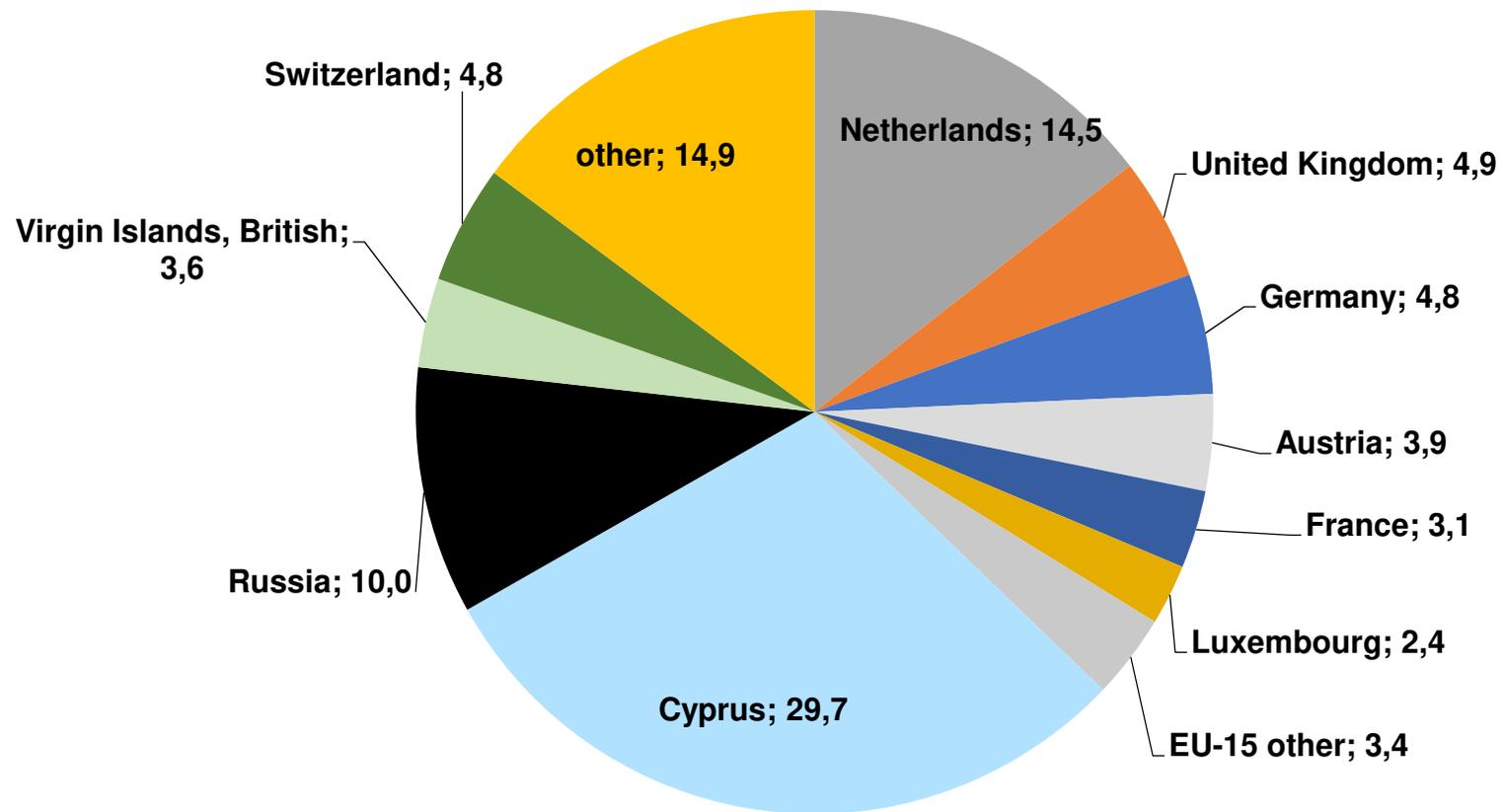
Note: Many TRQ remain unused (except in Ukraine for honey, juice, sugar and grain)

# FDI inward stocks per capita, in EUR



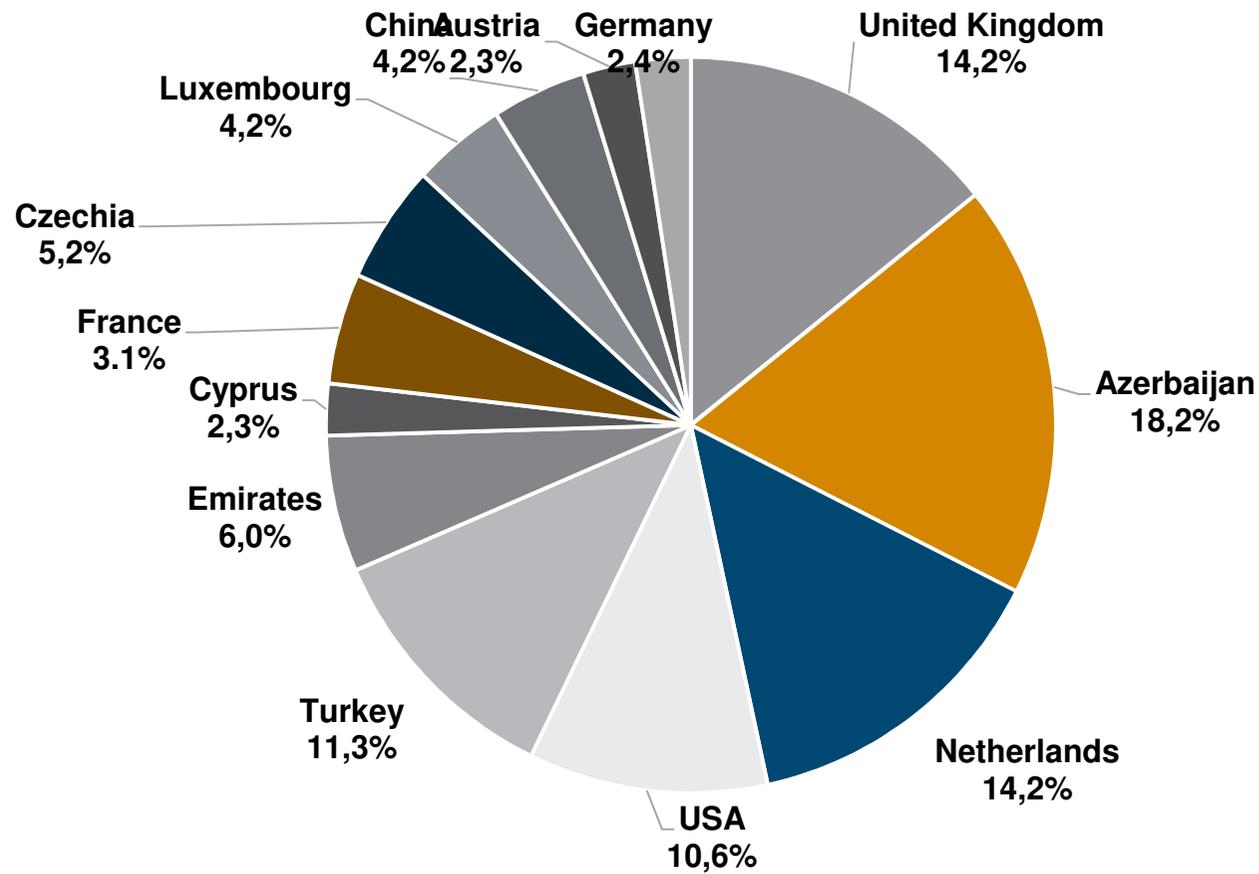
Ukraine's FDI inward stock: EUR 39.9 billion (end-2017)

Top 10 investors in % of total



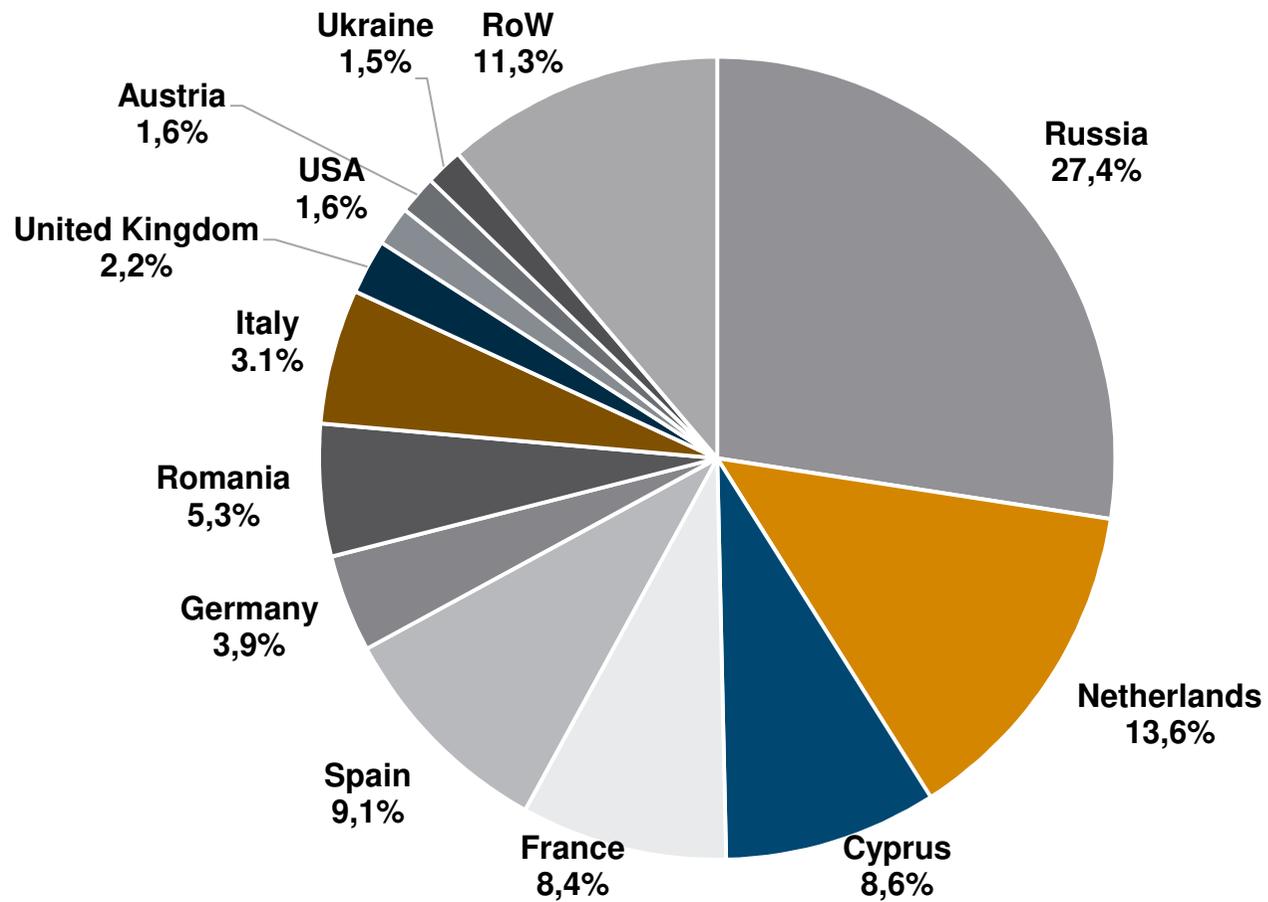
## FDI and restructuring (II)

Georgia's inward FDI stock by main investors, EUR 16.3 billion, end-2017



## FDI and restructuring (II)

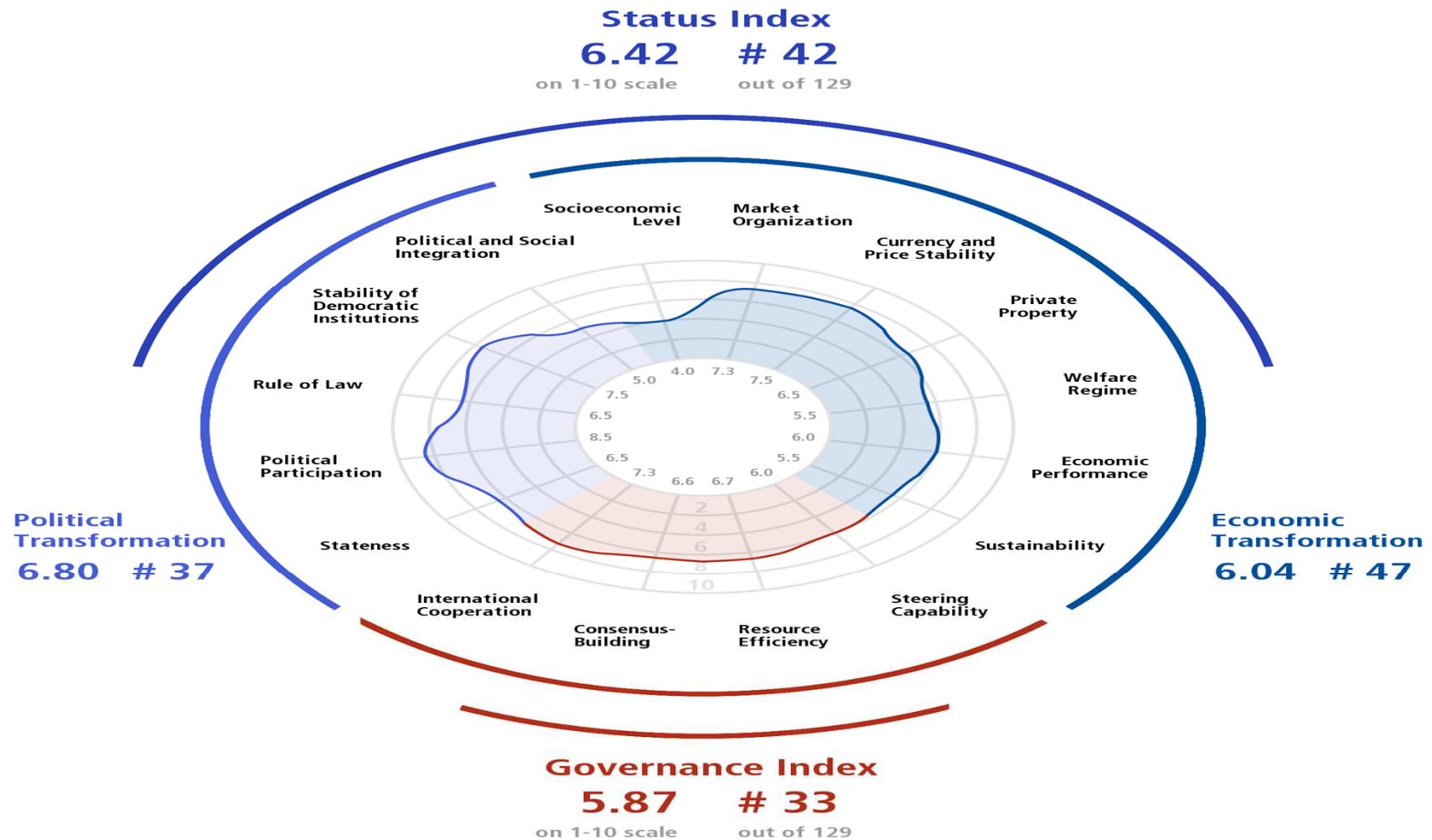
Moldova's inward FDI stock by main investors, EUR 2.5 billion, end-2016



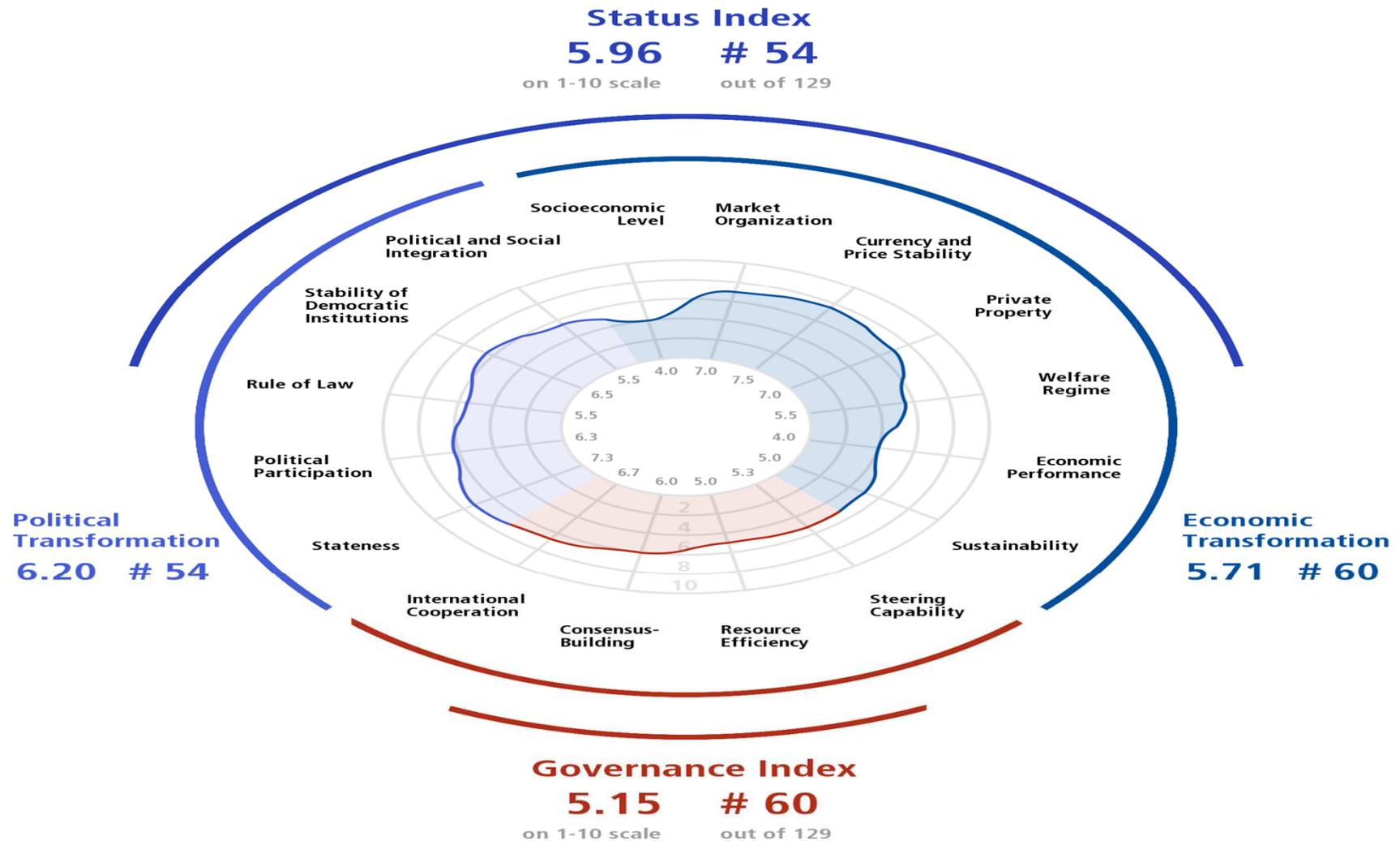
**Facit:**

- Uneven trade performance: Moldova is doing better than others
- Exports highly concentrated, early signs of restructuring (MD, UA)
- Widening trade deficits, also with the EU
- FDI stocks still low, especially compared to CEE peers
- Sources of FDI questionable (round-tripping, capital flight, etc.)
- DCFTA should facilitate FDI inflows (from the EU, beyond Cyprus)
- More pro-active FDI policies needed: lessons from CEEs

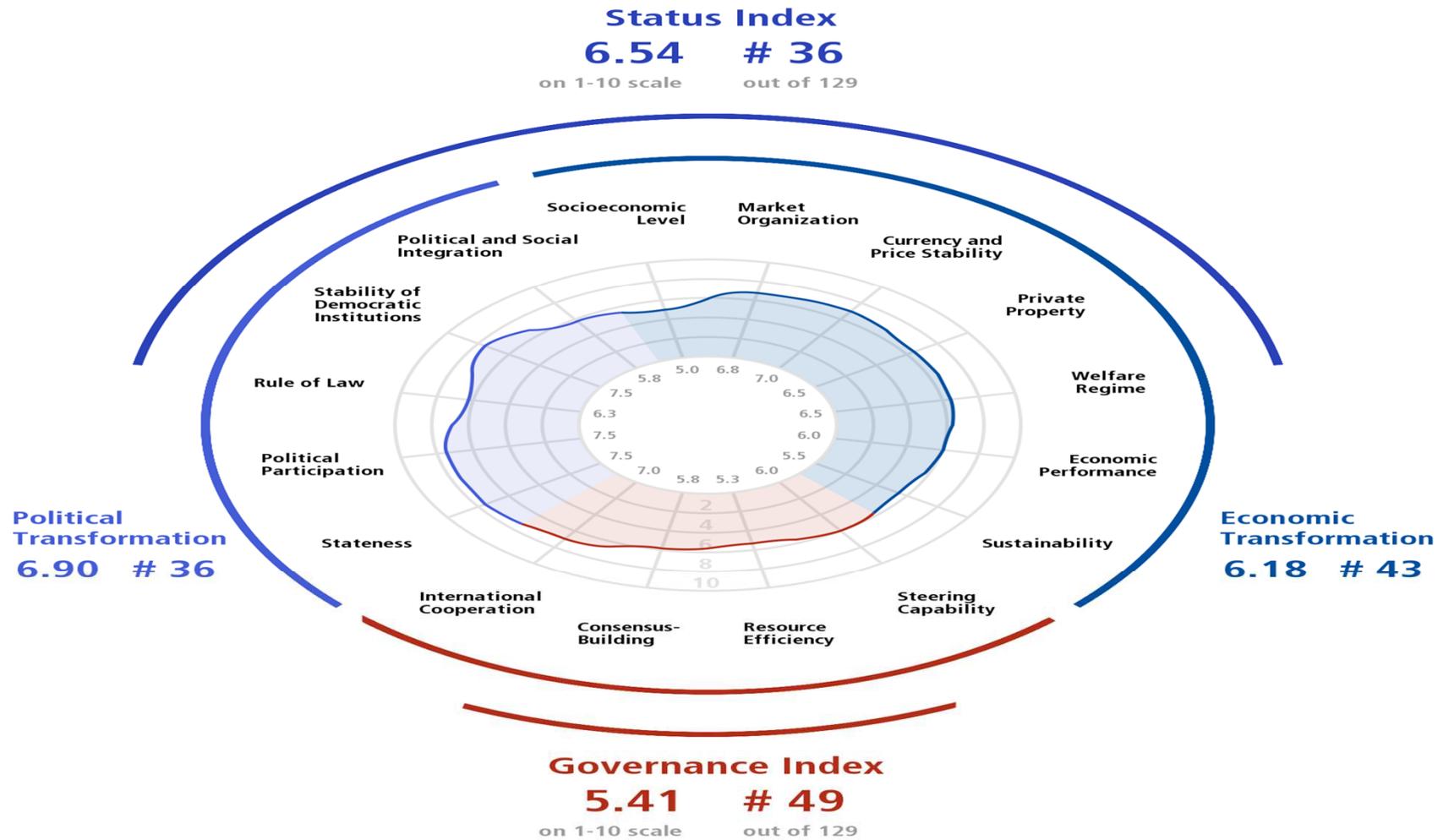
# BTI 2018 Georgia Country Report



# BTI 2018 Moldova Country Report



# BTI 2018 Ukraine Country Report



## Labour market challenges: Ukraine

Shares of the main sectors in employment and GVA, 2016 (in %)



Source: National statistics

## Challenges of the 'frozen conflicts'

- All three DCFTA countries suffer:
  - Georgia: South Ossetiya and Abkhasia (600 th people directly affected)
  - Moldova: Transnistriya (500 th people directly affected)
  - Ukraine: Crimea (2 mn) and parts of Donbass (nearly 3 mn people directly affected)
  - This is about 15% of the population in each country.
- Formally, DCFTA applies to the whole country
- Yet, de facto, „frozen“ conflict territory is not covered and DCFTA implementation is hindered even beyond the „freeze“.
- Will DCFTA foster a „de-frosting“ or a „climate change“?

## Policy recommendations

### **Pillar 1: Background conditions and public awareness**

- Establish supportive macroeconomic and political background conditions.
- Institutional reforms directly relevant for the business environment should be prioritised and accelerated.
- More effort should be put to increase specific rather than generic awareness of AA/DCFTA by stakeholders.
- Cross-border dialogues between the business communities of the EU and the DCFTA countries should be enhanced to facilitate incorporation of the DCFTA industries in the European and global value chains

### **Pillar 2: Strategic sequencing of reforms and gradualism**

- Careful sequencing of reforms to target competitiveness and market access challenges.
- Better accounting of adjustment costs and pragmatic gradualism of implementation is needed to balance costs and benefits over time.
- Long-run economic strategy should be developed or adjusted with the medium-run and long-run impacts of AA/DCFTA in mind.
- Diversify export markets and attempt to normalise relations with Russia.

### **Pillar 3: Increased financial and technical support from the EU with strict conditionality**

- More financial and technical assistance should be provided to the private and the public sector in the DCFTA countries.
- Strict conditionality of financial assistance should be enforced.
- Effective monitoring should be enforced and a functional scoreboard system developed to systematically track progress of reforms along multiple dimensions.
- A competition element for the EU funding needs to be introduced and a mix of merit-based and need-based financial aid opportunities should be further developed.

## Key policy recommendations for DCFTA countries

### Pillar 1: Background conditions

- Supportive macroeconomic, institutional and political background is crucial.
- More efforts to raise specific awareness of AA/DCFTA by all stakeholders.
- External pressure necessary, yet domestic ownership of reforms still crucial !
- Support cross-border linkages between the businesses and other stakeholders, including SMEs, to facilitate incorporation in global value chains.
- „Frozen conflicts“ resolution; normalization of relations with neighbours.

## Pillar 2: Strategic sequencing of reforms

- Priority of reforms targeting exports, competitiveness and market access via FDI.
- Pragmatic gradualism in implementation, balancing costs and benefits over time.
- Long-term economic development strategy coordinated with the medium- and long-term impacts of AA/DCFTA.
- Diversify export markets and attempt to normalise trade relations with neighbours.

## **Pillar 3: Increased financial and technical support with strict conditionality**

- More financial and technical assistance to both the private and the public sector.
- Address issues related to the lack of domestic technical and other expertise.
- Strict conditionality of financial assistance should be enforced.
- Effective monitoring and a functional scoreboard system developed to systematically track progress of reforms.
- A competition for the EU funding with a mix of merit-based and need-based financial aid opportunities.

## Thank you for your attention!

See the full report Adarov A. and P. Havlik (2016): “Benefits and Costs of DCFTA: Evaluation of the Impact on Georgia, Moldova and Ukraine” and the Policy Brief (2017): “Challenges of DCFTAs: How can Georgia, Moldova and Ukraine succeed?”

Both available at:

**Bertelsmann Stiftung** <http://www.bertelsmann-stiftung.de/>

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