

PRESS RELEASE

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## Reorientation of Ukraine's economy towards the EU

- *EU now Ukraine's most important trading partner*
- *High dependence on China for drones*
- *Critical raw materials, defence and renewables are opportunities for Europe*
- *Robust agriculture, greater role for the government*

Russia's invasion four years ago led to a fundamental realignment of Ukraine's economy towards the European Union. The war has also resulted in significant structural changes. For Europe, the economic transformation in Ukraine offers great opportunities, primarily in the areas of drone production and the defence industry, critical raw materials such as rare earths, and renewable energies. These are the key findings of a new study by the Vienna Institute for International Economic Studies (wiiw).

*'In order to realise its full potential and not fall behind the US, the EU would do well to pursue a decisive, co-ordinated and comprehensive approach in Ukraine,'* says Olga Pindyuk, Ukraine expert at wiiw and author of the study. Otherwise, she warns, its economic and strategic interests could be undermined, as the US raw materials agreement with Ukraine shows.

For her study, Pindyuk examined Ukraine's trade and investment flows before and after the start of the Russian invasion in February 2022. It is noteworthy that foreign trade is now mainly conducted with the EU. The EU's share of Ukrainian exports rose from 36% in 2021 to no less than 57% in 2024. The increase is also related to the removal of barriers to trade between the EU and Ukraine in the wake of the Russian invasion. As is well known, the EU granted generous exemptions and tariff concessions to support the Ukrainian economy.

### Heavy dependence on China for drones

At the same time, China's importance as a market for Ukrainian goods declined. Nevertheless, the Ukrainian arms industry – particularly the production of drones, which play a central role in the defensive war against Russia – became heavily dependent on Chinese supplies and components.

*'If China – currently Russia's closest ally – were to conclude one day that its interests would be better served by restricting or cutting off the supply of components for Ukrainian drone and arms production, Ukraine could find itself in serious military difficulties,'* warns Pindyuk.

The study therefore recommends that the EU co-operate even more closely with Ukraine in order to reduce dependence on China, particularly for drones. This could be achieved by

integrating Ukrainian drone manufacturers into European supply chains and European defence procurement, as well as through long-term contracts with industry.

In return, Ukraine could help the EU become less dependent on China and other supplier countries thanks to its large reserves of rare earths and other critical raw materials such as lithium and titanium. Rare earths are essential for digitalisation and green technologies, but also for the defence industry. China currently has a de facto monopoly on their processing and has already used this as leverage in its trade dispute with the US.

In terms of foreign direct investment (FDI), Ukraine still lags far behind its neighbours, which is of course also a consequence of the difficult security situation due to the war. However, low inflows of FDI were already a problem for the economy before the Russian invasion. At around USD 1,100 per capita, FDI stocks in Ukraine are only about a fifth of those in Romania and only a sixth of those in Poland or Bulgaria. Even in Moldova, FDI stocks are 50% higher per capita than in Ukraine.

### **Robust agriculture and a greater role for the state**

Structurally, Russia's war of aggression has brought about major changes in the Ukrainian economy. Agriculture has proven to be particularly robust, despite heavy losses of agricultural land and constant attacks on Ukraine's transport infrastructure. In 2024, exports of agricultural products almost returned to their pre-war level of 2021 in terms of value.

By contrast, heavy industry, metallurgy and mining have suffered heavy losses. This is mainly because these sectors are concentrated in eastern Ukraine, which has been particularly affected by the war. The public sector, on the other hand, has expanded rapidly, more than tripling from 6% of GDP in 2021 to around 20% of economic output in 2024. *'This reflects the enormous expenditure on the military and the arms industry in the ongoing defence against Russia,'* explains Pindyuk.

The study identifies services, especially information technology, as a promising sector for the future. Ukraine has a significant competitive advantage in IT, thanks to its highly skilled workforce and low wages. *'This has enabled the country to build an internationally successful IT industry that could help Europe catch up with the US and China in terms of technological advancement in this area,'* Pindyuk notes.

[The full study is available for download here.](#)

**About the Vienna Institute for International Economic Studies (wiiw)**

Founded in 1972, the Vienna Institute for International Economic Studies (wiiw) is an economic think tank that produces economic analyses and forecasts on 23 countries in Central, East and Southeast Europe. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. [www.wiiw.ac.at](http://www.wiiw.ac.at)

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