

**IJPSC**

**International Journal of Psychology and Strategic Communication**

ISSN: 2941-5691 (Online) 2941-5705 (Print) [28]

DOI: 10.61030/IJHR4637



## **PROBLEMS OF INTERNATIONAL MANAGEMENT OF UKRAINE'S FOREIGN TRADE POLICY IN TRADE IN GOODS IN THE CONTEXT OF INTEGRATION WITH THE EU**

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### **Abstract**

The purpose of this article is to study the formation and management of Ukraine's foreign trade policy and to analyse the state of foreign trade in goods between Ukraine and the EU. The objectives of the study are to summarize the historical milestones in the formation of relations between Ukraine and the EU, to analyse the main aspects of the free trade agreement in the context of reducing customs restrictions in mutual trade, to analyse the indicators of Ukraine's foreign trade in goods with the EU until 2022, and to determine the impact of the war on Ukraine's foreign trade operations with the EU after a full-scale invasion, to identify problems and prospects for deepening trade integration. In order to achieve these objectives, the methods of statistical data analysis, comparative analysis of markets of different countries, literature review, analysis and synthesis of information were used. The conclusions of the study provide a general assessment of the impact of recent events on Ukraine's economy, in particular on foreign trade with the EU, and also indicate the need to deepen economic cooperation.

### **Keywords**

foreign trade management, exports, imports, goods, import duties, free trade zone, tariff liberalisation, European integration, consequences of the war.

### **Problem statement**

The sovereign Ukraine directs its foreign policy towards strengthening peace and stability in the world by protecting national interests and its own security, which is especially important in the context of the full-scale invasion of Russian troops and simultaneous strengthening of economic and political integration with the European Union as a candidate country. Foreign trade is a factor in the economic development of countries and an important component of commodity turnover and foreign economic activity. The development of foreign trade ensures the growth of the country's GDP, contributes to the profitability of domestic producers and improves the quality of manufactured products, which increases the competitiveness of goods and services, it is a source of foreign exchange earnings, and ensures the growth of national income. The management and implementation of foreign trade in goods is an important condition for ensuring the national sustainability of the economy. An important element of the EU-Ukraine Association Agreement is the provision on the establishment of a Deep and

Comprehensive Free Trade Area (DCFTA). It provides for substantial trade liberalisation (elimination of tariffs or quotas) between the parties, harmonisation of legislation and the regulatory framework.

### **Relevance of the chosen topic**

The current processes of integration and globalisation, the crises of the past years, the war with the Russian Federation, and significant transformations require a more detailed study of the benefits and challenges of European integration and an assessment of the economic consequences of the Deep and Comprehensive Free Trade Area with the EU as a component of the Association Agreement for Ukraine's trade, which shapes its place in the international community. Insufficient study of this issue, especially in times of war, has led to the relevance of this study.

### **Analysis of recent research and publications**

Today, there is a significant number of scientific studies that examine the issue of creating free trade zones, in particular, the features of bilateral EU free trade agreements (Campling et al., 2016); attention is paid to the priority vectors of the Free Trade Agreement (deepening sectoral integration, increasing duty-free exports and abolishing non-tariff measures) between Ukraine and the EU (Osipova, 2018); the results of the study of the dynamics, state and structure of Ukraine's foreign trade with the EU countries are presented, and it is found that deindustrialisation of export and consolidation of its agricultural specialisation has been a characteristic feature of recent years (Redko and Tkachenko, 2021); the peculiarities of implementation of the Free Trade Area with the EU and its impact on the trade sectors of the Ukrainian economy are determined, the peculiarities of reforms and changes in accordance with the standards and requirements of the European community are considered (Zubko, 2022).

### **Purpose of the article**

The purpose of the study is to investigate the formation and management of Ukraine's foreign trade policy and analyse the state of foreign trade in goods between Ukraine and the EU. The objectives of the study are to summarise the historical milestones in the formation of relations between Ukraine and the EU, analyse the main aspects of the Free Trade Agreement in the context of reducing customs restrictions in mutual trade, analyse the indicators of Ukraine's foreign trade in goods with the EU until 2022, determine the impact of the war on Ukraine's foreign trade operations with the EU after a full-scale invasion, and identify the problems and prospects for deepening trade integration.

### **Presentation of the main research material and results obtained**

Modern Ukrainians are one of the branches of historical Slavs. For the first time, the Slavs-Venetians were mentioned in the works of Roman authors. In the second century AD. Pliny the Elder, Tacitus, Ptolemy, and from the sixth century onwards, the Byzantine historians Jordan, Procopius of Caesarea, John of Ephesus, and others speak about them more widely. At the turn of the century AD, the Slavs formed as an independent ethnic community that coexisted in Europe with the Germans, Thracians, Sarmatians, Gauls, and Ugrophins. Along with the Antes, the name Slavs was used simultaneously (Chekalenko and Fedunyak, 2010). Modern Ukrainians are one of the branches of historical Slavs. For the first time, the Slavs-Venetians were mentioned in the works of Roman authors. In the second century AD. Pliny the Elder, Tacitus, Ptolemy, and from the sixth century onwards, the Byzantine historians Jordan, Procopius of Caesarea, John of Ephesus, and others speak about them more widely. At the turn of the century AD, the Slavs formed as an independent ethnic community that coexisted in Europe with the Germans, Thracians, Sarmatians, Gauls, and Ugrophins. Along with the Antes, the name Slavs was used simultaneously (Popovych, 1998). Therefore, historically, Ukraine's attraction to Europe is quite understandable. In general, the idea of European integration gained momentum as a result of a deeper understanding of the tragic consequences of the Second World War, which Europe ended with heavy losses. European integration was intended to rebuild the economies of the affected Western European states and establish close economic cooperation between them (Boyko, 2023).

2022 is the year when the whole world, unfortunately, realised that the rattling of weapons is not just an empty sound and some theatrical performances, but a serious argument that pushes diplomacy into the background. At such a time, the issues of political and economic alliances, especially the EU, have become particularly relevant, as it is impossible for states to wage war alone, due to the rapidly growing role of

globalisation in the world, in the most diverse areas that can now exist on earth (Kravtsova, 2022). Given its geopolitical position, historical experience, cultural traditions, rich natural resources, strong economic, scientific, technical and intellectual potential, Ukraine can and should become an influential global power capable of playing a significant role in ensuring political and economic stability in Europe (Verkhovna Rada of Ukraine, 1993).

An indispensable condition for the successful realisation of Ukraine's potential is its active and full integration into the global community. In overcoming the crisis in its society and paving its way to the world, Ukraine relies on its fundamental national interests, which determine the principles, directions, priorities and functions of its foreign policy (Verkhovna Rada of Ukraine, 1993). According to the Law of Ukraine "On the Principles of Internal and External Policy", one of the basic principles of Ukraine's foreign policy is to ensure Ukraine's integration into the European political, economic and legal space with a view to EU membership. The Resolution of the Verkhovna Rada of Ukraine of 2 July 1993 "On the Main Directions of Ukraine's Foreign Policy" defined for the first time Ukraine's intention to develop relations with the European Union. Ukraine's strategic orientation towards European integration was confirmed and developed in the Strategy of Ukraine's Integration into the EU (11 June 1998) and the Programme of Ukraine's Integration into the EU (14 September 2000). It proclaimed a long-term strategic goal - the European integration of Ukraine. On 9 September 2008, at the Paris Summit, Ukraine and the EU reached a political agreement to conclude a future agreement in the form of an Association Agreement based on the principles of political association and economic integration. The political part of the Association Agreement was signed on 21 March 2014 and the economic part on 27 June 2014. The EU-Ukraine Association Agreement entered into full force on 1 September 2017. It is an international legal document that enshrines at contractual level the transition of relations between Ukraine and the EU from partnership and cooperation to political association and economic integration.

An important component of the EU's integration mechanism is the common economic policy. The economic instruments of foreign policy involve the use of a state's economic potential to influence the economy and politics of other states (Mittweida University, 2023). It is the economic potential that determines the state's position in international relations, including the development of industry, raw materials and the state of the labour force. We focus on foreign trade, which helps to increase the economic potential of the state and allows it to influence the policies of other states through world prices, the establishment of the most favoured nation regime or the introduction of an embargo (Palinchak et al., 2022).

It is important to note that the EU became Ukraine's largest trading partner even before the outbreak of the full-scale war. The changes began 10 years ago when, after numerous trade 'wars', Russia's annexation of Crimea and the outbreak of the war in Donbass, Ukrainian producers began to look for alternatives to Russia and the CIS countries. The EU started to liberalise tariffs on goods from Ukraine on 23 April 2014 (under the EU's Autonomous Trade Preferences (ATP) for Ukraine), while Ukraine started to eliminate tariffs on European goods on 1 January 2016. The liberalisation process foresees the immediate elimination of part of the import duties from the start of the DCFTA, as well as the gradual liberalisation of import duties during the transition periods, which will be completed by 2023 for the EU and 2026 for Ukraine. According to the World Trade Organisation (WTO), in 2014 the EU applied zero import duties to goods from Ukraine for about 89% of tariff lines. In addition, around 25% of MFN duties were already at zero and 64% were lifted as ATP by the EU on 23 April 2014. In total, around 95.8% of EU tariff lines for products from Ukraine will be at zero by 2023. At the same time, the EU has excluded 400 tariff lines from tariff liberalisation. These tariff lines belong to the following product groups: products of animal and plant origin, prepared food and chemical products. The highest tariffs remained for tobacco products (HS24), processed vegetables, fruits, nuts and plants (HS20), sugar and sugar confectionery (HS17), meat and edible offal (HS2) (Taran et al., 2022).

Tariff liberalisation under the DCFTA has significantly reduced tariff barriers to the EU market for Ukrainian goods (Fig. 1). As a result, Ukrainian goods have gained advantages in accessing the EU market compared to other countries that do not have preferential trade agreements with the EU and are subject to MFN tariffs (Taran et al., 2022).

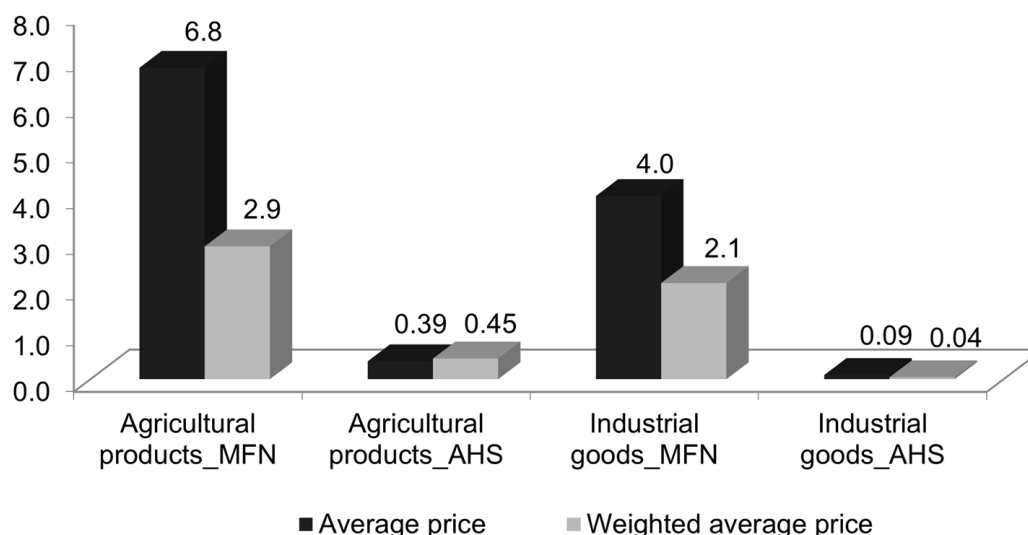


Fig. 1: EU tariff rates for goods originating in Ukraine: current preferential (AHS) and most favoured nation (MFN) duties, 2020

Source: materials used (WITS, 2020)

The DCFTA had a positive impact on the dynamics of bilateral trade in goods with the EU, contributing to the recovery of Ukraine's overall trade after the 2014-2015 crisis. Following the entry into force of the DCFTA, the volume of trade in goods with the EU started to recover and in 2021 the volume of trade in goods with the EU-27 reached a record high for the entire period of cooperation - USD 55.7 billion, which is 32.2% higher than the pre-crisis level of 2013.

The trade deficit in goods with the EU-27 also decreased compared to the pre-crisis period. In 2016-2019, the trade deficit in goods with the EU-27 averaged USD 3.3 billion, compared to USD 9.7 billion in 2013. This reduction is mainly due to the expansion of Ukraine's goods exports to the EU. In 2021, the deficit in trade in goods with the EU-27 shrank even further to USD 2.2 billion (Taran, Shepotilo, Yavorskiy, Bondarenko, 2022). (Fig. 2).

With the entry into force of the EU-Ukraine DCFTA, the growth of Ukraine's exports of goods to the EU-27 resumed, growing by an average of 14.8% per year in 2016-2019. Overall, exports of goods to the EU-27 in 2019 increased by 59.1% (USD 7.5 bn) compared to 2015 (pre-DCFTA) and by 24% (USD 3.9 bn) compared to 2013, before the crisis. Imports of goods from the EU have also recovered rapidly, with imports of goods from the EU to Ukraine growing at an average annual rate of 16.1% in 2016-2019. Overall, imports of goods from the EU-27 increased by 64.2% (+9.5 bn USD) in 2019 compared to 2015, but were still 6.5% (-1.7 bn USD) below the pre-crisis level of 2013.

In 2020, the economic downturn and falling demand in the wake of the global pandemic led to a decline in trade in goods between the EU27 and Ukraine. Exports of goods from Ukraine to the EU-27 fall by 10.9%, while imports of goods from Ukraine to the EU-27 fall by 4.9%. However, in 2021, growth in trade in goods with the EU resumes for both exports and imports, due to a sharp increase in demand and prices on world markets, with exports of goods to the EU growing much faster than imports from the EU. In 2021, exports of goods to the EU-27 grew by 49.4% year on year to reach \$26.8 billion, while imports of goods from the EU-27 grew by 25.2% to reach \$28.9 billion. Compared to 2013, exports of goods to the EU-27 in 2021 will be almost 65.3% higher than their pre-crisis level (+ USD 10.6 bn), while the corresponding increase in imports of goods from the EU-27 will be much lower, at 11.7% (+ USD 3 bn) (Taran, Shepotilo, Yavorskiy, Bondarenko, 2022).

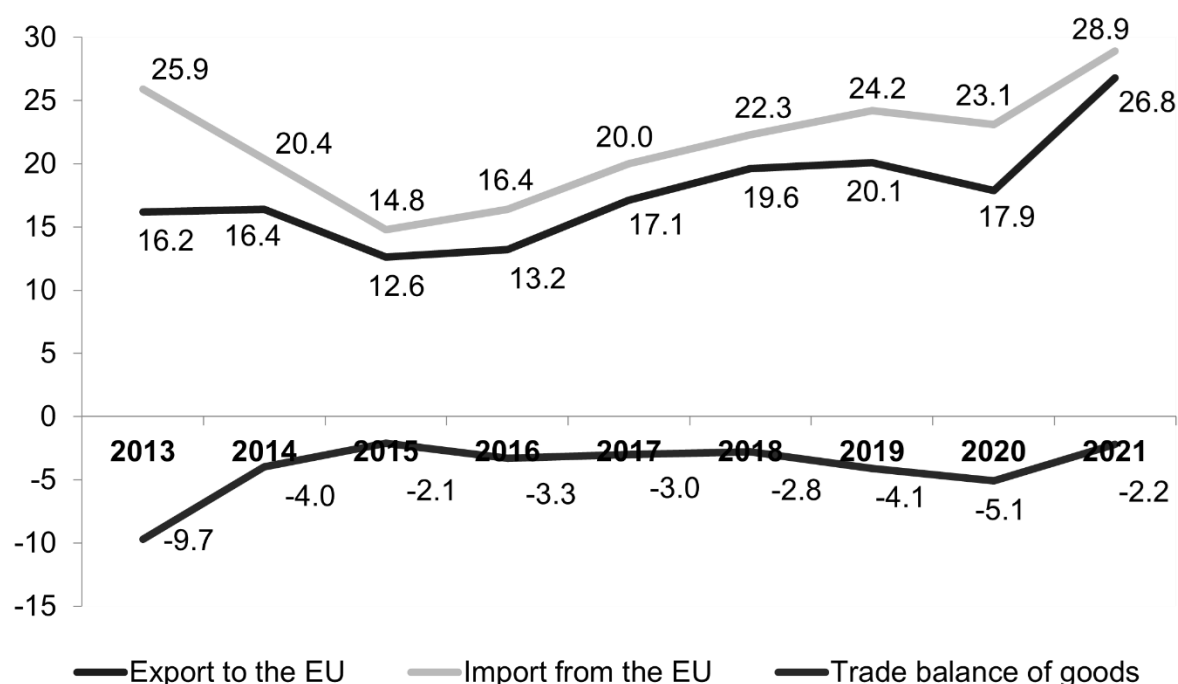


Fig. 2: Exports and imports of goods with the EU-27 countries in 2013-2021, billion USD

Source: materials used (Derzhavna sluzhba statistiki Ukrayini, 2021)

While in 2021 there were almost no major changes in the regional structure of Ukraine's foreign trade, the full-scale invasion of 2022 caused significant changes, which is understandable in wartime, and it is known that such crisis conditions have a significant impact on international markets and foreign trade activities (Benenson, Velesco et al., 2021). The predictable result of Russia's military aggression against Ukraine was a significant reduction in external economic relations with both Russia and its ally, the Republic of Belarus. At the end of 2021, the CIS countries accounted for 19% of Ukraine's imports and 11% of its exports, while at the end of 2022 their share was 14% for imports and 6% for exports. The European Union is Ukraine's main trading partner in both 2021 and 2022. At the end of 2021, the EU's share in Ukraine's external trade in goods was 40% of imports and 39% of exports, and by the end of 2022, the EU's share increased to 46% of Ukraine's imports and 63% of exports (Saliy and Saliy, 2023)

It is noted that the EU remained Ukraine's largest trading partner in 2022, including a decline in the share of Ukrainian exports to other countries and regions of the world, mainly the CIS and Asia, in favour of partnership with the EU. But the EU's decision - especially in June 2022 - was valuable, as Ukraine lost access to its main Black Sea export route and had to quickly reorient itself towards more expensive and difficult land exports. In a situation where other markets were not available, Brussels' decision expanded access to the EU market. What we see after these two years is less the result of the abolition of tariff quotas than of changes in trade logistics. But trade liberalisation was and is necessary for Ukraine. Meanwhile, it should be noted that about half of the total value of Ukrainian exports to the EU in 2023 will be agricultural goods. The most significant growth in Ukrainian exports to the EU has also been driven by agriculture. Under normal circumstances, this would mean that the Ukrainian economy has an advantage in the production of agricultural goods. However, trade liberalisation did not take place under normal conditions, but during the war, when many industrial facilities were destroyed and domestic demand in Ukraine increased. Therefore, this does not mean that Ukraine's mining and heavy industries are less competitive in the current circumstances (BBC News Ukraine, 2024)

Shortly before the introduction of the "visa-free trade regime" in June 2022, the EU also launched the Solidarity Action Plan to create alternative logistics routes for Ukraine, which has generated €50 billion in revenues for the Ukrainian economy in two years. In general, according to the State Customs Service, Ukrainian exports to the EU accounted for 59% of all exports (and just over half of all imports) in January-August 2024).

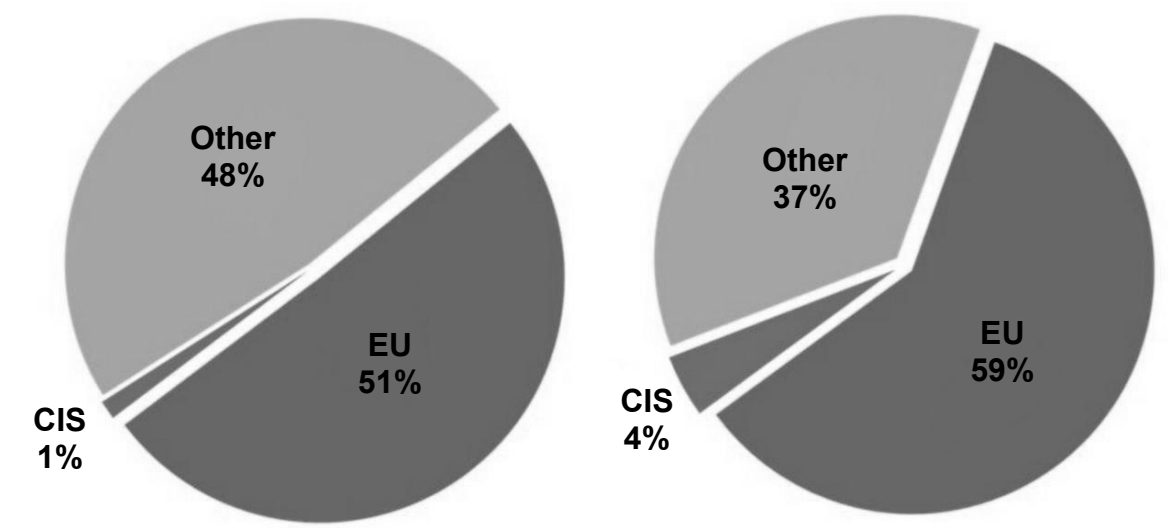


Fig. 3: Structure of imports and exports in January-August 2024

Source: materials used (Derzhavna mitna sluzhba Ukrayini, 2024)

The most important change was that Poland took the lead in terms of exports from Ukraine in 2022, accounting for 15.7% of total merchandise exports. This was followed by Romania with 8.74%, Turkey with 6.66%, Germany with 5.13% and Hungary with 5.15%. The share of exports to China almost halved to 5.59%. Moldova became the main destination of Ukrainian exports in the CIS region with a share of 2.09%. The CIS countries also include the Russian Federation with a weight of 1.08%, but this result was achieved in the first two months of 2022, and after the outbreak of military aggression Ukrainian exports to Russia ceased (Saliy & Saliy, 2023). Among the EU countries, Poland, Italy, Germany, the Netherlands and the United Kingdom are the most cooperative with Ukraine: Poland, Italy, Germany, the Netherlands, Spain, Hungary, the Czech Republic and Slovakia (Trotska, 2023).

It should also be noted that in 2023 Ukraine set a historical record for ice cream exports, with more than 10,000 tonnes exported abroad. Most of the Ukrainian ice cream went to the EU (mainly Germany, Poland, Lithuania and the Czech Republic), where producers received 60% of their profits. Last year, Ukrainian producers sold more than 4,000 tonnes of berries on foreign markets, but due to the border blockade by Polish farmers, blueberry exports to Poland fell by almost 40%, while exports to Germany increased 18-fold. Other buyers of Ukrainian berries include the Netherlands, Spain and the UK. In addition, the first Ukrainian blueberry producers have started to supply blueberries directly to the leading EU chains, where the requirements for product quality and regular supply are very high.

In mid-May, the European Council extended until June 2025 the regime suspending tariffs and quotas on imports of Ukrainian products into the EU. This regime of "autonomous trade measures" to support the Ukrainian economy came into force in June 2022 and was extended in 2023 with an amendment to temporarily ban imports of Ukrainian wheat, maize, soybeans and sunflowers to five countries on the EU's eastern border. This time, however, the updated agreement provides for the possibility of joint restrictions on imports of certain goods from Ukraine. For a number of products, an 'emergency brake' mechanism has been introduced, which means that the liberalisation of trade in 'sensitive' agricultural products can be suspended immediately to protect EU farmers. These include poultry, eggs, sugar, oats, cereals, maize and honey.

### Conclusions

Thus, the Deep and Comprehensive Free Trade Agreement (DCFTA) between Ukraine and the EU already offers great opportunities for trade. It is necessary to use them, because in 2022, as a result of the full-scale invasion, Ukraine's foreign economy collapsed due to the reduction of export production, as well as complicated, and in some areas impossible, export logistics, while the only border through which Ukraine's foreign economic relations with the world were maintained was the western border, which had limited capacity due to congestion. According to the World Trade Organisation (WTO), in 2014 the EU applied zero tariffs to goods from Ukraine on around 89% of tariff lines. Two years ago, after Russia's full-scale attack, Ukraine gained virtually free access to the EU market. The share of Ukrainian exports to other countries, mainly the CIS and Asia, has decreased in favour of partnership with the EU. According to the State Customs Service,

Ukrainian exports to the EU accounted for 59% of all exports (and just over half of imports) in January-August 2014.

Ukraine needs to focus on broadening its product range. At present, agricultural products and raw materials (cereals, metals, timber) account for a significant share of exports. There is a need to develop exports of manufactured goods, high-tech products and services, particularly in the IT sector.

Further research could focus on the impact of the Deep and Comprehensive Free Trade Area (DCFTA) on the development of specific sectors of the Ukrainian economy, including agriculture, industry and technology. It would be useful to assess the extent to which the productivity of Ukrainian firms has increased as a result of the removal of trade barriers, and how this process has affected the investment climate. It would also be useful to examine the changes in agricultural exports following the preferences and the war.

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