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## **ТОРГОВЕЛЬНА ІНТЕГРАЦІЯ ЯК ІНСТРУМЕНТ ОПТИМІЗАЦІЇ СПІВРОБІТНИЦТВА УКРАЇНИ З ЄС**

*Анотація*

У даний час Україна повинна побудувати ефективну регіональну модель розвитку, зокрема використовуючи наявні можливості Угоди про Асоціацію, особливо у частині Поглибленої та всеохоплюючої зони вільної торгівлі (ПВЗВТ) між Україною та Європейським Союзом. Слід зазначити, що Угода про Асоціацію між Україною та ЄС застосовується у тимчасовому режимі з 1 листопада 2014 року, а ПВЗВТ з ЄС почала діяти з 1 січня 2016 року, що відкриває для національного бізнесу можливість вийти за межі внутрішнього ринку і спробувати інтегруватися в європейський бізнес-простір. Угода передбачає взаємне відкриття ринків товарів і послуг на основі передбачуваних та дієвих правил торгівлі у рамках реалізації комплексної програми адаптації регуляторних норм у сферах, пов'язаних з торгівлею, до відповідних стандартів Євросоюзу. Це дозволить значною мірою усунути нетарифні (технічні) бар'єри у торгівлі між Україною та Євросоюзом і забезпечити розширений доступ українських і європейських бізнес-структур відповідно до українського і європейського ринків. Продемонстровано, що ПВЗВТ відіграє ключову роль у посиленні торговельних відносин та сприянні збалансованості української економіки, створюючи умови для приведення ключових секторів економіки України до стандартів ЄС, забезпечуючи поступову інтеграцію економіки України до внутрішнього ринку Євросоюзу. У роботі наведено статистичні показники торгівлі України з Євросоюзом, починаючи з 2014 року, які підтверджують ключову роль Євросоюзу у двосторонній торгівлі України з ЄС. У роботі розглядаються основні можливості та виклики для розвитку України в контексті функціонування ПВЗВТ. Слід наголосити на тому, що ЄС та Україна продовжують працювати над тим, щоб забезпечити можливості та вигоди для обох сторін у рамках програми ПВЗВТ.

**Ключові слова:** бізнес, Європейська Комісія (ЕК), Європейський Союз (ЄС), Угода про Асоціацію, Поглиблена та всеохоплююча зона вільної торгівлі (ПВЗВТ), двостороння торгівля, торговельна інтеграція.

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## **TRADE INTEGRATION AS THE OPTIMIZATION TOOL FOR UKRAINE COOPERATION WITH THE EU**

*Summary*

At present, Ukraine needs to build an effective regional development model, in particular by taking advantage of the capabilities of the Deep and Comprehensive Free Trade Area (DCFTA)

between Ukraine and the EU. The implementation of the DCFTA offers new economic benefits to Ukraine and the EU. The paper presents statistical indicators of EU-Ukraine trade since 2014, which confirm the key role of the EU in bilateral trade of Ukraine with the EU. The main positive effects and challenges of DCFTA functioning by interest groups are presented.

*Keywords:* business, European Commission (EC), European Union (EU), Association Agreement (AA), Deep and Comprehensive Free Trade Area (DCFTA), bilateral trade, trade integration.

**Problem statement.** In a changing context of the world tendencies the structural transformations in the country have increased the strategic role of the economic cooperation as a means to ensure comprehensive sustainable development and improve standards of living. The DCFTA has been created the new opportunities and challenges for the EU and Ukraine businesses, consumers and authorities on the basis of predictable and enforceable trade rules promoting economic cooperation and contributing to increased stability and prosperity for Ukraine. Obviously, the DCFTA has a key role to play in increasing trade relations and investments, and helping to rebalance the Ukrainian economy, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards. It is hard to deny the fact that trade integration between the EU and Ukraine offers our country a lot of opportunities aiming modernisation trade relations and economic development, access to EU markets, finance (a variety of grant support, profitable loans), new technologies, training programmes, etc. Unfortunately, Ukrainian business doesn't know all own opportunities, which are available through different EU instruments. In the context of the foregoing, it is very important for Ukraine to study the different aspects of functioning of the DCFTA as a regional development model.

**Analysis of resent studies.** From a researcher's point of view, the DCFTA are now considered as regional development model of Ukraine and to stronger economic integration with the EU. The scholars like A. Balezentis, O. Yatsenko, M. Emerson, V. Movchan, A. Butin, B. Fedets, experts of the Institute for Economic Research and Policy Consulting and international organizations (United Nations, EU, EC, etc.) have analyzed the effects of trade liberalization between Ukraine and the EU, the opportunities, benefits, problems and prospects for country, business and consumers within the framework of the DCFTA. If we are taking into account, what possible measures can help the Ukraine, we can find many issues, which need improvement. In the context of the present study we wish to emphasize that despite the recognition of the importance of cooperation with EU for national economy, many aspects because of its complexity and contradiction are not investigated.

**Main aim** of the article is an attempt to study the main opportunities and challenges for Ukraine in the context of trade integration as the optimization tool for Ukraine's cooperation with the EU.

**Basic material.** It is important to keep in mind that today "international trade opens new markets and offers new opportunities for Ukrainian businesses development whereby promoting the growth of the national economy" [1]. On 1 September 2017, the EU-Ukraine Association Agreement (AA) came into full force. The DCFTA has been provisionally applied since 1 January 2016, constituting a major milestone in bilateral trade relations and offering new economic opportunities to both the EU and Ukraine [4]. It should be acknowledged, the concrete results of implementation of the DCFTA can already be seen: the bilateral trade between the EU and Ukraine grew by 49% since it entered into force in January 2016. The latest statistics show that the EU is reinforcing its position as Ukraine's number one trading partner, accounting for most of its imports and exports, with a share of 41,41% in its total trade in 2018 (table 1).

Table 1

**Trade statistics "Ukraine – EU"\***

	2014	2015	2016	2017	2018
Ukraine TiG&S turnover, mln. \$	126224,3	90903,1	90806,0	109062,3	122469,3
UA - EU TiG&S turnover, %	45212,4	34023,4	36063,6	44318,0	50709,2
Share from the total volume, %	35,82	37,43	39,71	40,64	41,41
Ukraine TiG turnover, mln. \$	108330,4	75643,5	75611,5	92871,9	104522,6
Including UA-EU TiG turnover	38072,0	28345,4	30637,1	38332,8	43373,5
Share from the total volume, %	35,14	37,47	40,52	41,27	41,5
Ukraine TiS turnover, mln. \$	17893,9	15259,6	15194,5	16190,4	17946,7
Including UA-EU TiS turnover, mln. \$	7140,4	5678,0	5426,5	5985,2	7335,7
Share from the total volume, %	40,02	37,21	35,71	36,97	40,87
Ukraine TiG export, mln. \$	53901,7	38127,1	36361,7	43264,7	47335,0
Including Ukrainian export to the EU	17002,9	13015,2	13496,3	17533,4	20157,0
Share from the total volume, %	31,54	34,14	37,12	40,53	42,58
Ukraine TiS export, mln. \$	11520,8	9736,6	9868,0	10714,3	11637,9
Including Ukrainian export to the EU	3991,6	2927,9	3004,9	3452,7	3979,9
Share from the total volume, %	34,65	30,07	30,45	32,23	34,2
Ukraine TiG import, mln. \$	54428,7	37516,4	39249,8	49607,2	57187,6
Including import from the EU, mln. \$	21069,1	15330,2	17140,8	20799,4	23216,5
Share from the total volume, %	38,71	40,86	43,67	41,93	40,6
Ukraine TiS import, mln. \$	6373,1	5523,0	5326,5	5476,1	6308,8
Including import from the EU, mln. \$	3148,8	2750,1	2421,6	2532,5	3355,8
Share from the total volume, %	49,41	49,8	45,46	46,25	53,2
Ukraine TiG balance, mln. \$	-527	610,7	-2888,1	-6342,5	-9852,6
Ukraine – EU TiG balance, mln. \$	-4066,2	-2315,0	-3644,5	-3266	-3059,5
Ukraine TiS balance, mln. \$	5147,7	4213,6	4541,5	5238,2	5329,1
Ukraine – EU TiS balance, mln. \$	842,0	177,8	583,3	920,2	624,1

\*Source: developed by author according to [2]

The AA, including its DCFTA part, is the main tool for bringing Ukraine and the EU closer together. The DCFTA offers Ukraine a framework for modernising its trade relations and for economic development by opening up markets and harmonising laws, standards and regulations in various sectors (fig. 1). This will help align key sectors of the Ukrainian economy with EU standards. Ukrainian businesses receive stable and predictable preferential access to the largest market in the world, with over 500 million consumers. EU businesses are able to benefit from easier access to the Ukrainian market and build new relationships with Ukrainian suppliers and partners [7]. This will also be to the benefit of Ukrainian citizens, as they will have better access to high quality products, and increased competition and the lowering of import tariffs should lead to lower prices [4]. The AA has triggered a reform of Ukraine's legal framework, with the aim of aligning it with that of the EU. It will allow, in the long-term, to treat many Ukrainian products the same way as others in the EU internal market. Given the gradual approximation of Ukrainian legislation with EU legislation and internationally-recognised EU standards in production and services, Ukraine should be able to export more easily not only to the EU, but also to the rest of the world [3].

In addition, the reforms that are anchored in the DCFTA will allow improvements in the overall business climate in Ukraine, including curbing corruption, which will in turn increase investors' confidence. The DCFTA implementation enables Ukraine to diversify its economy, which is today based on the large companies in basic commodity sectors (e.g. metallurgy). The aim is to move towards a more modern model including the development of a vibrant services sector and many small- and medium-sized enterprises (SMEs) [3].

On 1 October 2017 the additional autonomous trade measures of the EU for Ukraine entered into force. The EU regulation on the measures tops up the quantities of agricultural products that Ukraine can export to the EU under the AA without paying customs duties. It also accelerates the elimination of EU import tariffs for several industrial products, as foreseen in the AA. The AA/DCFTA aims to boost trade in goods and services between the EU and Ukraine by gradually cutting tariffs and bringing Ukraine's rules in line with the EU's in certain industrial sectors and agricultural products [7]. In the annexes of the AA are fully described the tariff regulation of trade between Ukraine and the EU. Regulations include: customs duties; tariff quotas; entry prices. For most agricultural products custom duties on imports from Ukraine to the EU was abolished from 1 January 2016, in the framework of the DCFTA [9].

The EU continues to stand by Ukraine by providing assistance and making available advice and expertise, notably to help SMEs to grow and to take

advantage of the opportunities granted by the DCFTA, in particular regarding the progressive alignment with EU rules. The DCFTA Facility for SMEs will complement existing EU programmes (EU SURE, SME Flagship) enabling SMEs to be better equipped to the changes in the domestic business environment [4]. It should be noted, “the surveyed representatives of businesses were optimistic about the 2018 business environment compared to that observed in 2016. Nearly 60% of all the representatives of businesses were of the opinion that the business environment improved over past two years, 14,3% of them found the business environment to be less favourable, and the remaining 26,2% reported that they observed no changes in the business environment over past two years” [1].

	POSITIVE EFFECTS	CHALLENGES
UKRAINIAN BUSINESS	Duty-free access to one of the most powerful and largest markets in the world for most Ukrainian products. Creation of Ukrainian brands that will be easily recognized all over the world. The integration of SMEs into global value chains by becoming business partners of foreign direct investors. <b>Increasing:</b> opportunities for commercial cooperation in the country and beyond, development of tourism; investment attractiveness of Ukrainian regions; demand for domestic products, including in third-country markets, due to the implementation of European standards; equal conditions for competition and increasing exports to the EU. <b>Improvement of:</b> opportunities for use of high-tech vehicles; the European standards of quality and safety of Ukrainian products, including in the domestic market; the structure of domestic exports in the direction of reducing the raw material component and increasing the share of high-tech products with a high share of value added produced in Ukraine; business climate. <b>Reducing:</b> corruption by simplifying procedures in international traffic and increasing transparency; costs related to incompatibility of transport documents, the standards of clearance and transportation of goods.	1. Increasing competition due to better opportunities and possible displacement from the market or absorption by European competitors. 2. Increasing costs related to the implementation of safety, labor and environmental standards, consumer rights.
AUTHORITIES	1. Formation of complex systems of regulation and control. 2. Large-scale harmonization of Ukrainian laws, norms and standards with the EU in different sectors directly or indirectly related to trade. 3. Improvement of conditions for integration into European structures. 4. Implementation of European standards of safety and environmental protection. 5. Ability to use the resources of international and European organizations to resolve internal issues. 6. Increased budget revenues.	3. The costs of harmonizing the legal field with EU norms. 4. Possible additional costs associated with the use of upgraded transport infrastructure.
CONSUMERS	1. Expanding the nomenclature of goods and services in the domestic market, as well as tourist opportunities. 2. Strengthening the level of protection of consumer rights and safety in accordance with European standards. 3. Increasing labor mobility and creating new jobs. 4. Improving access to quality imported products. 5. Improving the standards of quality and safety of Ukrainian products, including in the domestic market. 6. Cheapening of imported products due to reduction/cancellation of import duty of Ukraine.	5. The lost of job as a result of competition with EU companies.

**Fig. 1. Effects within the framework of the DCFTA Ukraine - EU\***

\*Source: developed by author according to [1, 3-9]

To better integrate with the EU market, Ukraine is harmonising many of its norms and standards in industrial and agricultural products. Ukraine is also

aligning its legislation to the EU's in trade-related areas such as: competition; public procurement; customs and trade facilitation; protection of intellectual property rights; trade-related energy aspects, including investment, transit and transport [7].

**Conclusions and directions of further researches.** In the light of these considerations, it seems justified to conclude that the AA/DCFTA is indeed a key element of economic life and offers an opportunity to Ukraine to improve its business climate, to attract foreign investment, to help in the modernisation and diversification of the national economy to further integrate with the EU and the world economy. Ukraine creates additional incentives for reforms and seeks opportunities to support growth in all regions of the country in terms of jobs, lower prices, safety, better quality and greater choice for consumers through increased competition and improving legislation in areas such as competition, government procurement, protection of intellectual property rights, environmental protection and so on. The knowledge of the key opportunities and challenges in the context of bilateral perspectives helps to develop tools and mechanisms to translate the ambitions into practical, effective solutions in cooperation between Ukraine and EU within the framework of the DCFTA. **Further research** should be focused on developing bilateral cooperation between Ukraine and EU based on a comprehensive analysis of complex problems and their solutions in the context of creating a solid foundation to ensure economic growth in terms of significant challenges faced by the country.

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