NEWSLETTER

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Positive effect of the DCFTA on Ukraine's exports to the EU

Ukraine and the EU concluded a deep and comprehensive free trade agreement (DCFTA) in 2014. In a recent comparative study, which also includes Georgia and Moldova, we look at the effect of the DCFTA on Ukrainian exports to the EU.

Between 2013 and 2018, exports to the EU increased by 20% in US dollar terms. During this period, prices for key Ukrainian export commodities declined heavily. In real terms, i.e. using constant prices of 2013, Ukrainian exports to the EU increased even more strongly – namely by 54%. As a result, the share of the EU among export destinations rose to 42% last year, up from 27% in 2013. All in all, we conclude that the DCFTA had a clearly positive effect on Ukrainian exports to the EU.

At the same time, we found out that the DCFTA had also a positive effect on the commodity composition of Ukraine's exports. The concentration of exports declined by 21% from 2013 to 2018 and the share of processed goods increased from 32% to 41%. New products appear in the export basket, even though their value is with 2% of exports to the EU still low.

Thus, considering all indicators, we can safely conclude that the DCFTA had a clear positive effect on Ukraine's goods exports to the EU. To us, this does not really come as a surprise, as we repeatedly highlighted in the past the transformative character of this agreement on Ukraine's economy.

The DCFTA enters into force

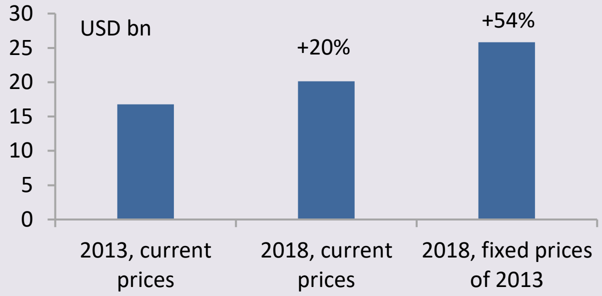
In 2014, the EU and Ukraine agreed on the establishment of a deep and comprehensive free trade agreement (DCFTA). As an integral part, the DCFTA abolishes practically all tariffs and – even more importantly – spells out an alignment process with EU standards concerning product safety among other things.

A key motivation of Ukraine behind the DCFTA was to increase exports to the EU. While the agreement formally came into force only in January 2016, the EU applied its contractual obligations using autonomous trade measures already since 2014. Almost 5 years after the de-facto introduction of the DCFTA (at least from the perspective of Ukraine's exports), we analyse where the country stands in terms of reaching its goal. We do this by comparing a set of relevant indicators in 2013 (before the DCFTA) and in 2018 (last full year after the DCFTA). More specifically, we analyse the effect on exports of goods and on the commodity composition of exports.

The effect on exports to the EU

As a first indicator, we consider the value of nominal goods exports in USD terms in 2013 and in 2018. It can be seen that exports increased by 20%, from USD 16.8 bn to USD 20.2 bn. This is a remarkable result, given that exports to other destinations decreased by 25% during that period. Furthermore, prices for key commodities (grain, metals) dropped strongly over this period. Thus, it is more telling to look at exports in constant prices of 2013. What can be seen is that exports (in constant terms) increased stronger, by 54%.

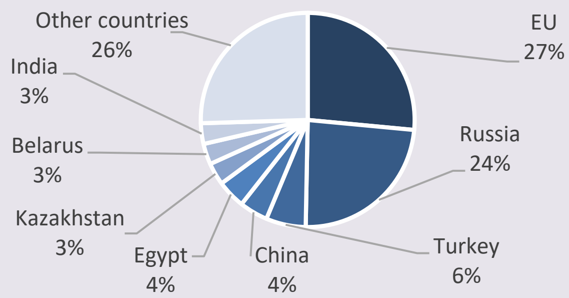
Exports to the EU, 2018 vs 2013



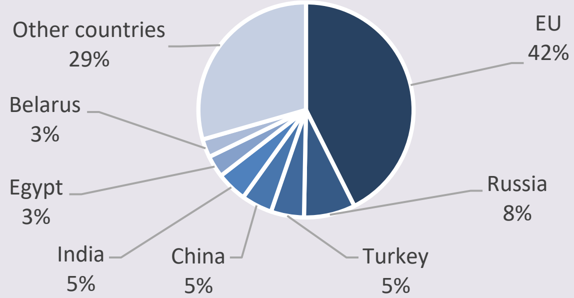
Source: WITS, Ukrstat

At the same time, it is worthwhile to also consider the share of the EU as an export destination. This indicator jumped by 15 percentage points, from 27% of total exports in 2013 to 42% in 2018. The parallel breakdown of trade with Russia (from 24% to 8% over the same period) indirectly contributed to this development.

Destination countries of UKR exports 2013



Destination countries of UKR exports 2018



Source: UN ComTrade, WITS

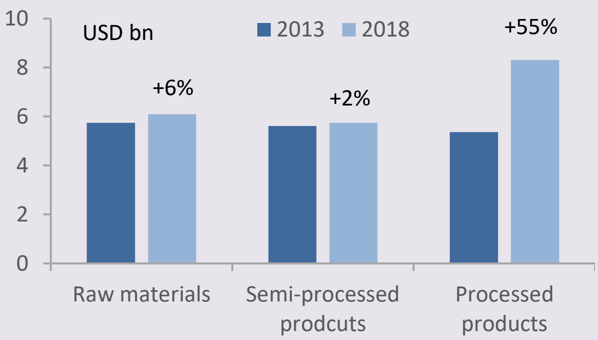
Taking into account all three indicators, we can conclude that so far, the DCFTA has had a strong effect on exports to the EU.

The effect on the commodity composition of exports

Additional conclusions can be drawn by comparing the number of different exported goods to the EU in 2013 with 2018. This number increased from 2,610 products in 2013 to 2,868 in 2018, a net increase of 258 products. Also, the number of new products in the export basket to the EU is with 584 products relatively high, even though their quantitative importance is still rather limited (export value of USD 302 m, or 2% of exports to the EU).

At the same time, the concentration of exports to the EU decreased by 21%. Thus, the DCFTA seems to have stimulated the diversification of exported products. Importantly, the export value of processed products increased the most (+55%), while raw materials (+6%) and semi-processed goods (+2%), were rather stable. The relative increase of processed products at the expense of raw materials and semi-processed goods is positive, because processed products usually have a higher value added, thus generating more income in the country.

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



Source: WITS, authors' calculations based on MTN classification

Against this background, we conclude that so far, the DCFTA has had a positive effect on the commodity composition of exports to the EU.

Conclusion and outlook

Ukraine's goods trade has a clear focus on the EU, which is now by far the most important export destination for the country. All indicators considered in this analysis support the view that the conclusion and implementation of the DCFTA with the EU achieved tangible economic benefits for Ukraine and its citizens already during its first years of existence. These results should not really come as a surprise, given that previous work by the German Advisory Group has repeatedly suggested such economic benefits and advantages already long before the conclusion of the agreement.

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A more comprehensive analysis is provided by the Policy Study "The economic effect of the DCFTA on Ukraine, Moldova and Georgia - A comparative analysis"

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The group advises the Government of Ukraine on economic policy issues since 1994. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.

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