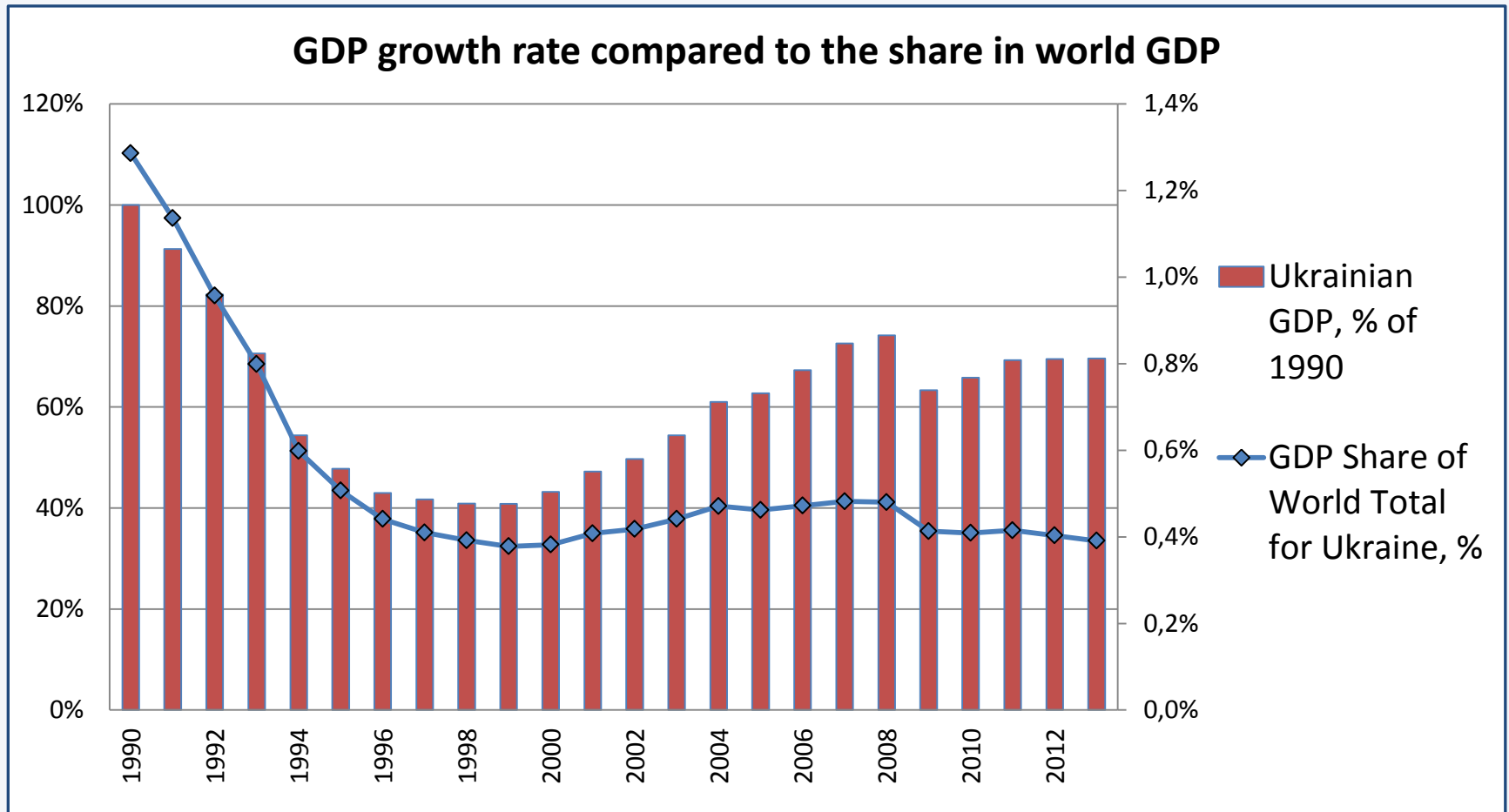


**Socioeconomic consequences
of an Association Agreement between
Ukraine and the European Union**

Alexander Kravchuk

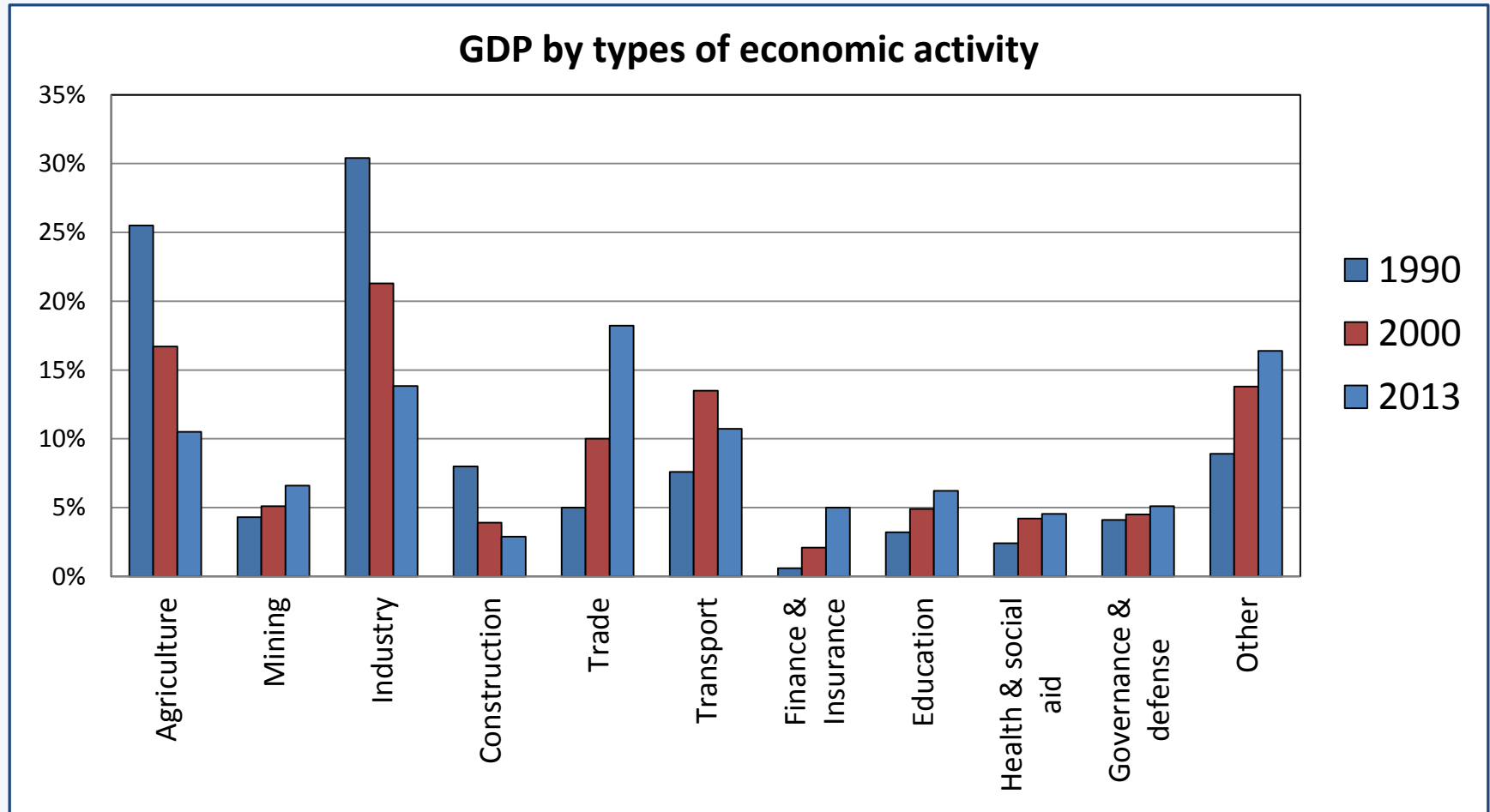
I. Economic preconditions of Association Agreement

Economic preconditions of Association Agreement



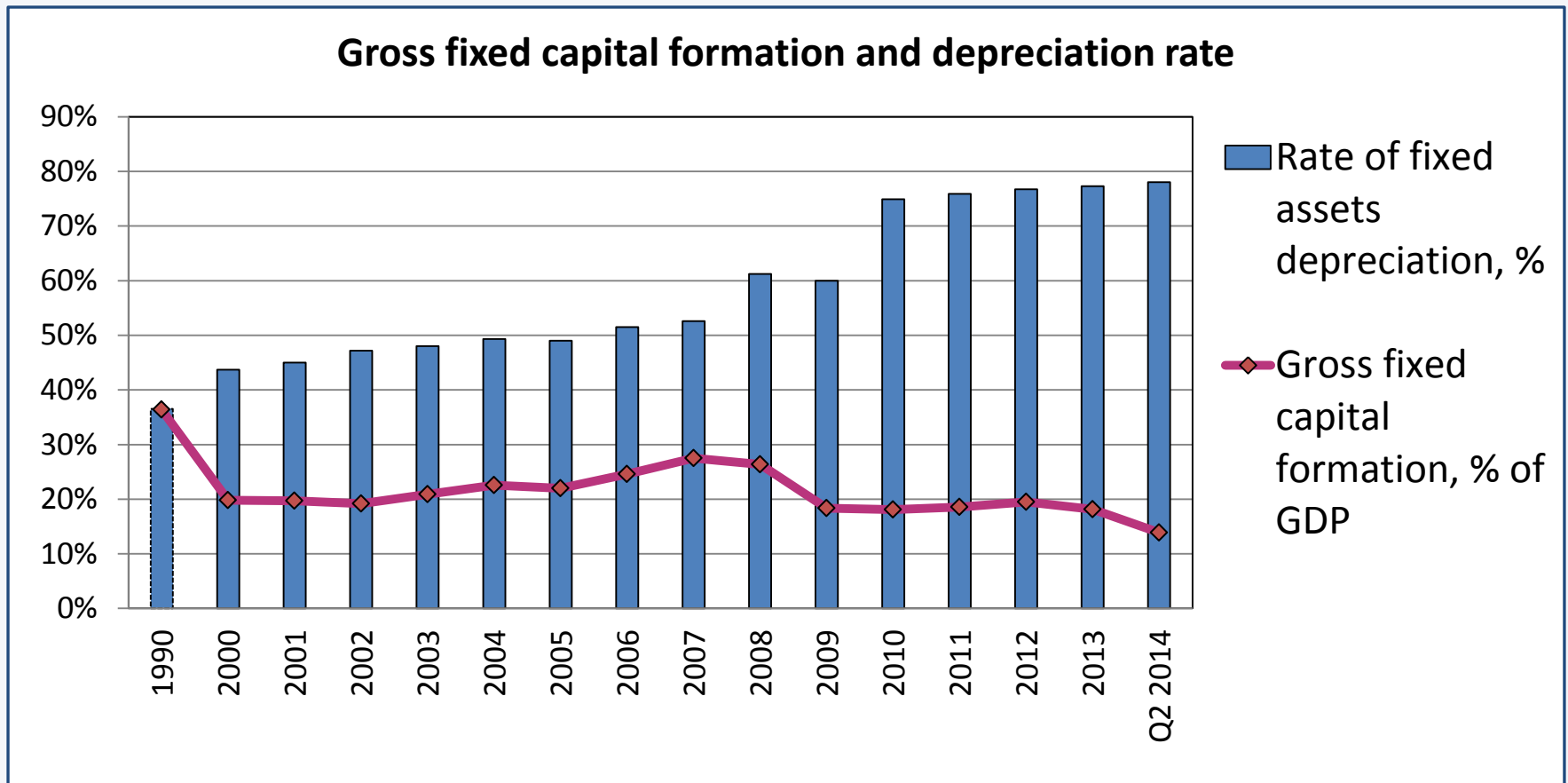
- Till 2013 Ukrainian economy reached only 70% of the 1990th;
- Share of Ukraine in global GDP fell from 1.3 to 0.4%.

Economic preconditions of Association Agreement



- Drop in manufacturing industry from 30.4% to 13.8% of GDP;
- Reduction of the agriculture from 25.5% to 10.5% of GDP;
- Growth of the financial sector and trade in 3.5 times.

Economic preconditions of Association Agreement



- Worsening of the GDP use by structure from 36.4% to 13.9%;
- Threaten rate of capital assets depreciation;
- Tendency of consumption and capital refluxing.

Economic preconditions of Association Agreement



- Increasing of openness of Ukrainian economy;
- dependence from external risks and weakness of the internal market.

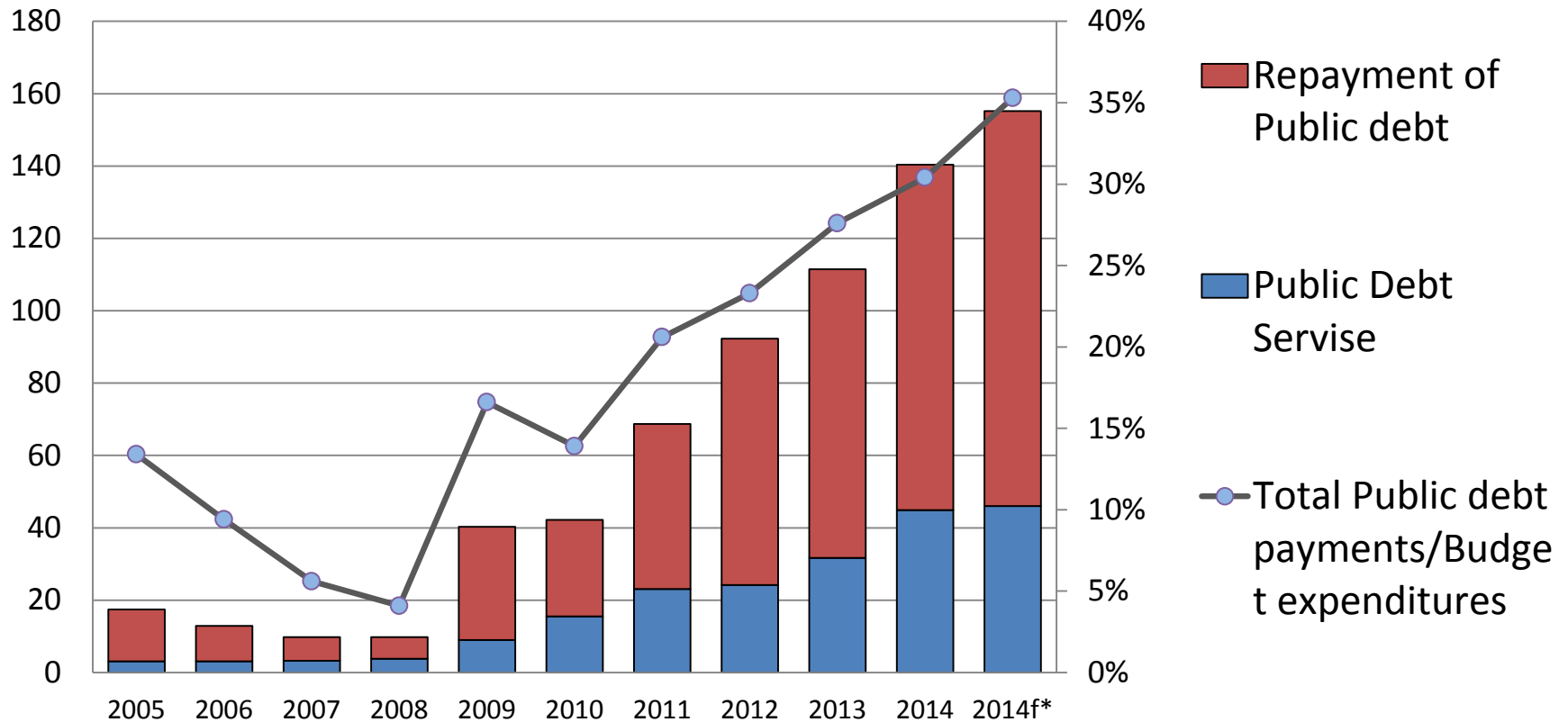
Economic preconditions of Association Agreement



- Decline of Ukrainian reserves in recent years to threaten level;
- Increasing of dependence from foreign financial institutions;
- Discrepancy in financial stability indicators

Economic preconditions of Association Agreement

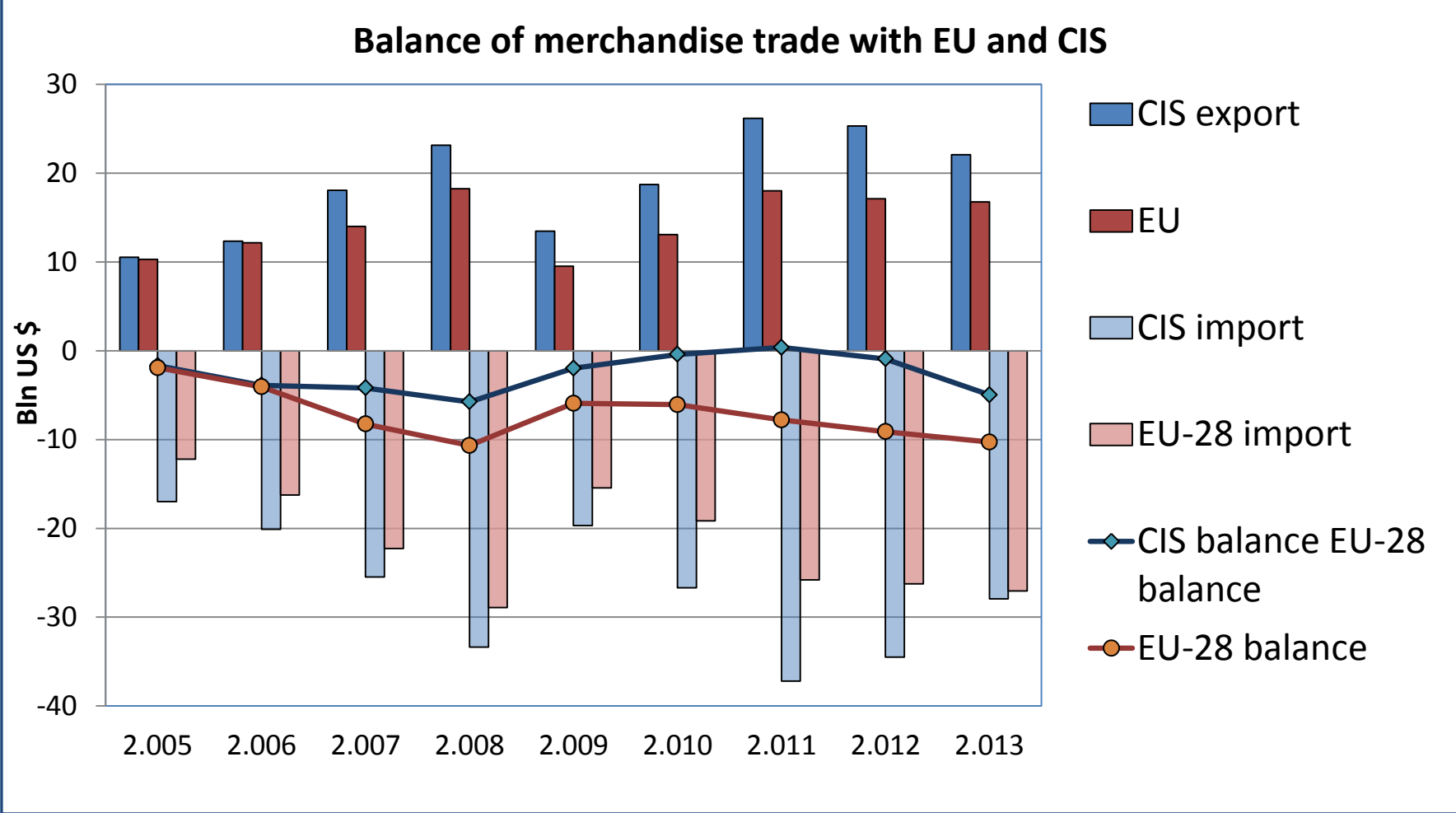
Public debt payments in total budget expenditures



- Difficulty of public debt service & repayments
- Tightening of the credit loop of international finance institutions

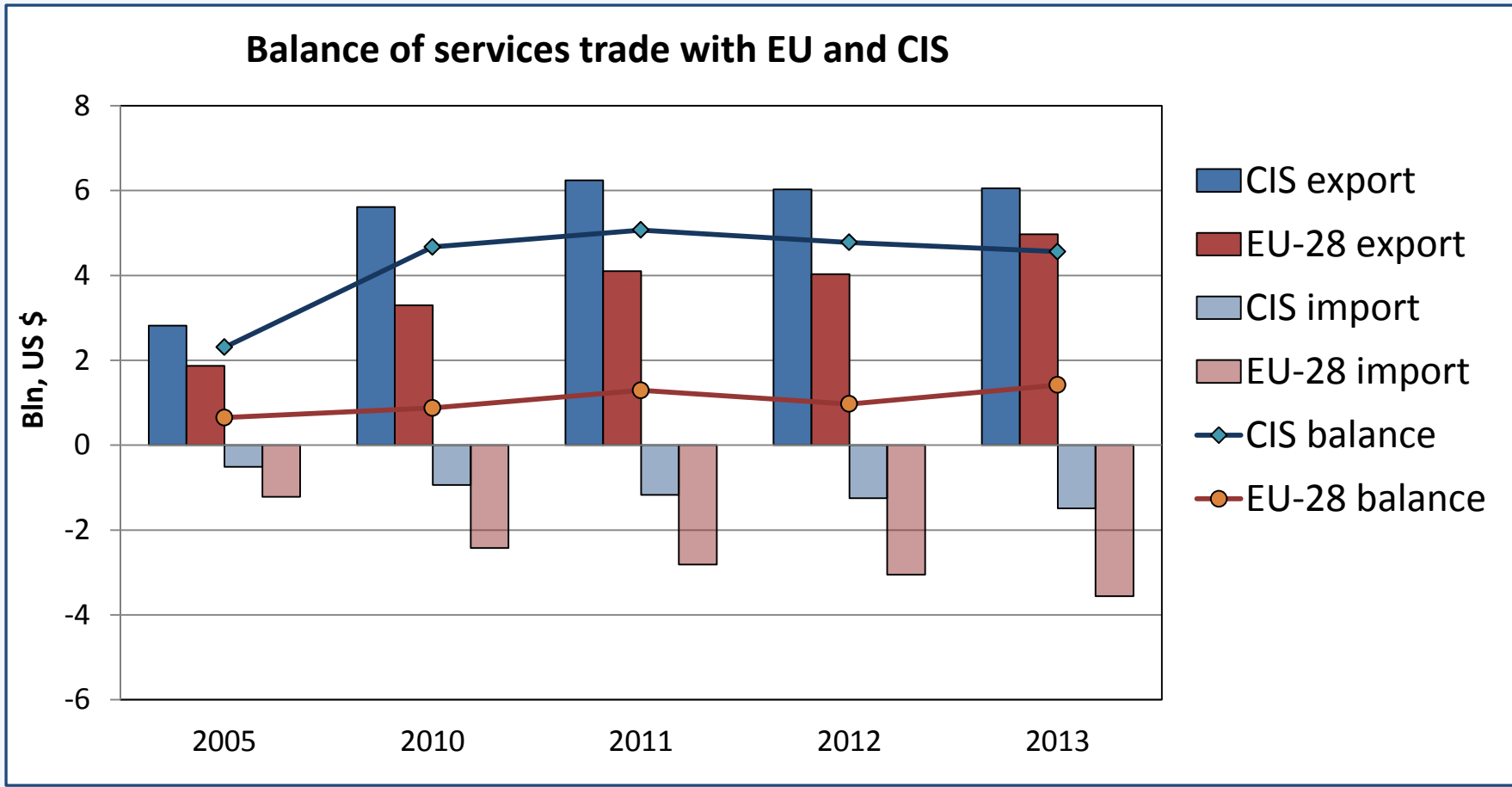
II. Socioeconomic consequences of Association Agreement between the EU and Ukraine

Socioeconomic consequences of Association Agreement between the EU and Ukraine



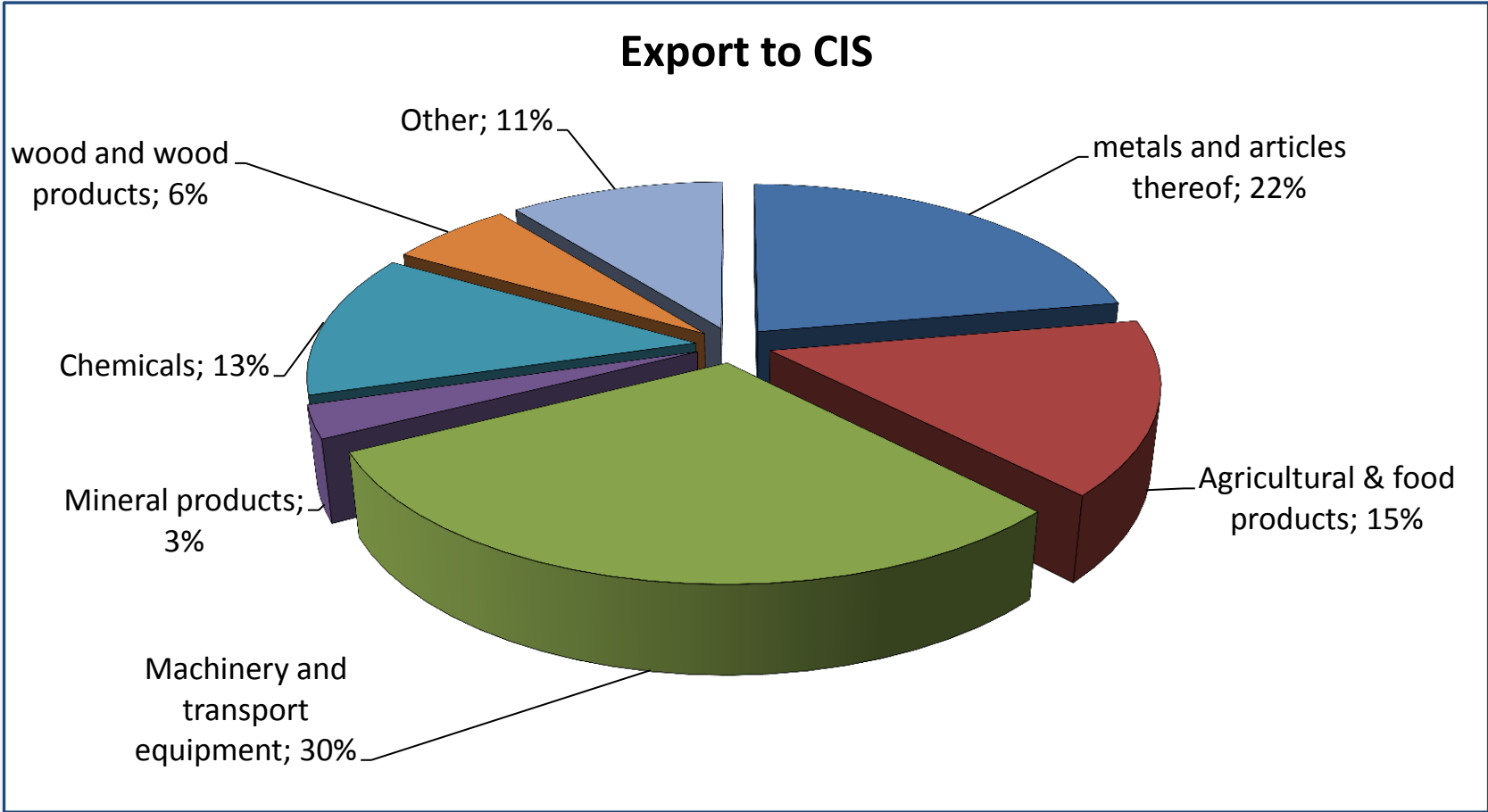
- Almost the equal shares of foreign merchandise trade with EU and CIS;
- Growing of negative balance of merchandise trade, especially with EU.

Socioeconomic consequences of Association Agreement between the EU and Ukraine



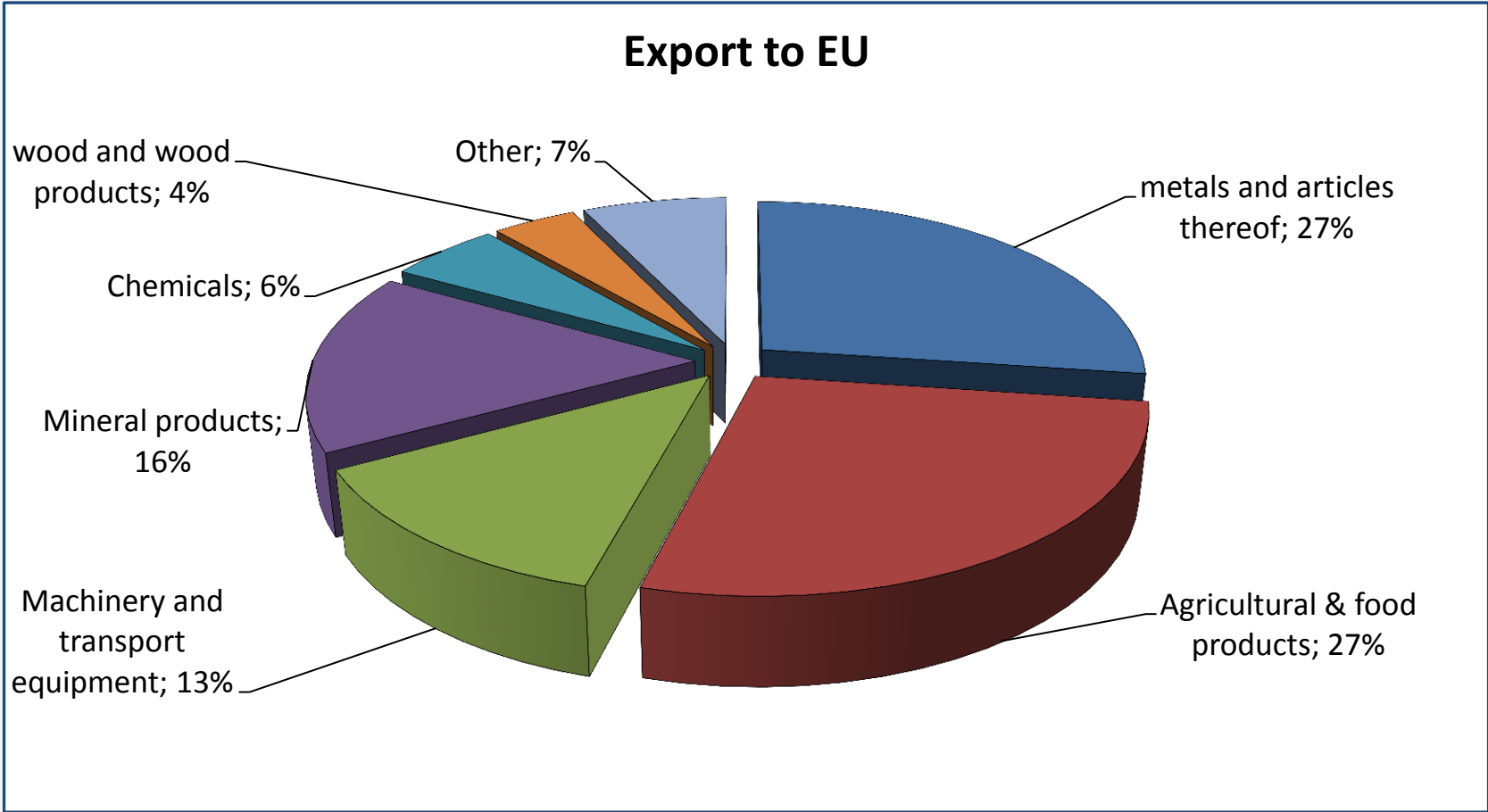
➤ Growing of positive balance in service trade both EU and CIS since 2005 with the largest share of transport services.

Socioeconomic consequences of Association Agreement between the EU and Ukraine



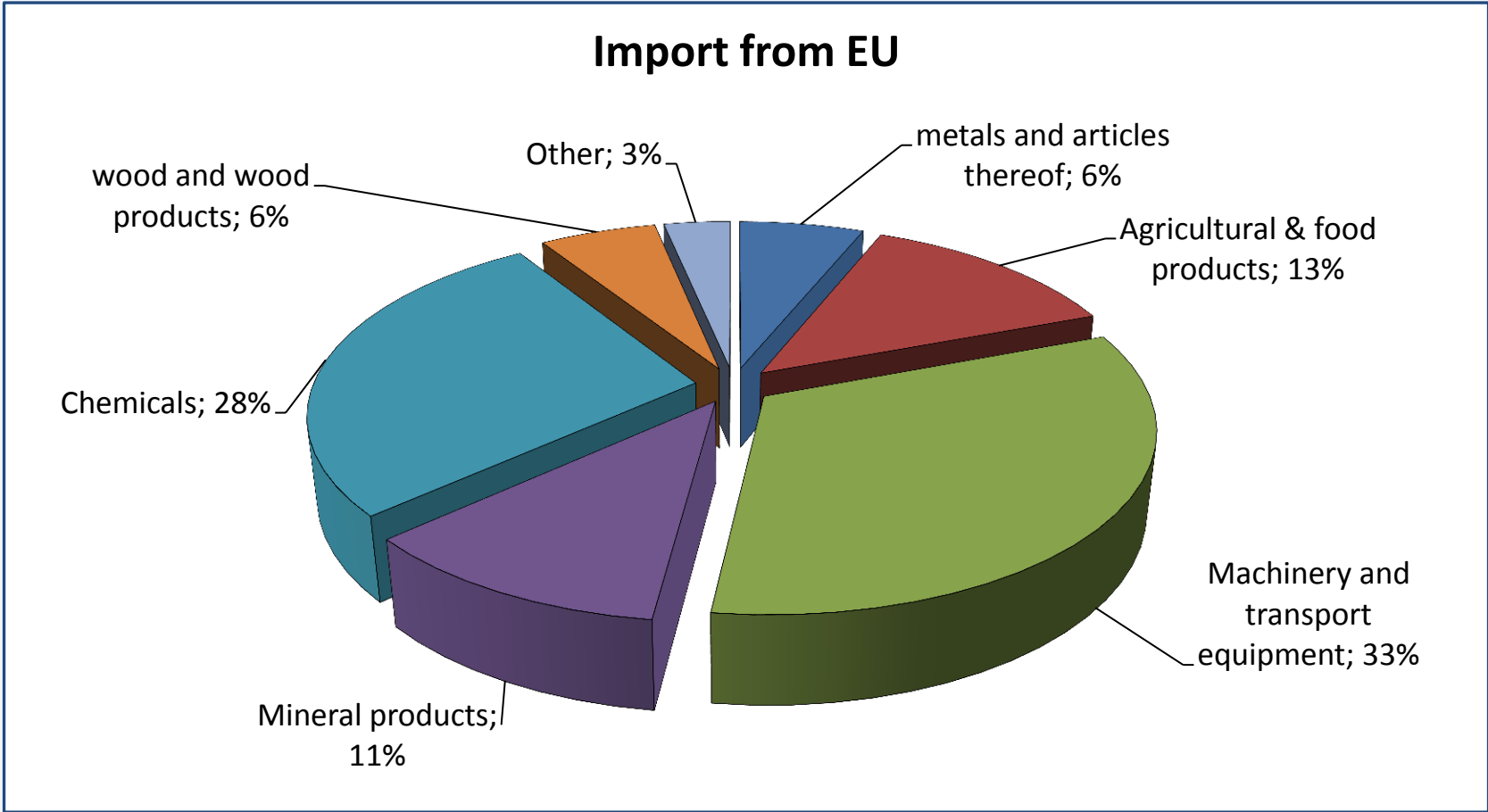
- Machinery still keeps one third of export to CIS because of:
 - saving industrial relations between Ukrainian and CIS companies;
 - common technical standards in aircraft, car and heavy industry.

Socioeconomic consequences of Association Agreement between the EU and Ukraine

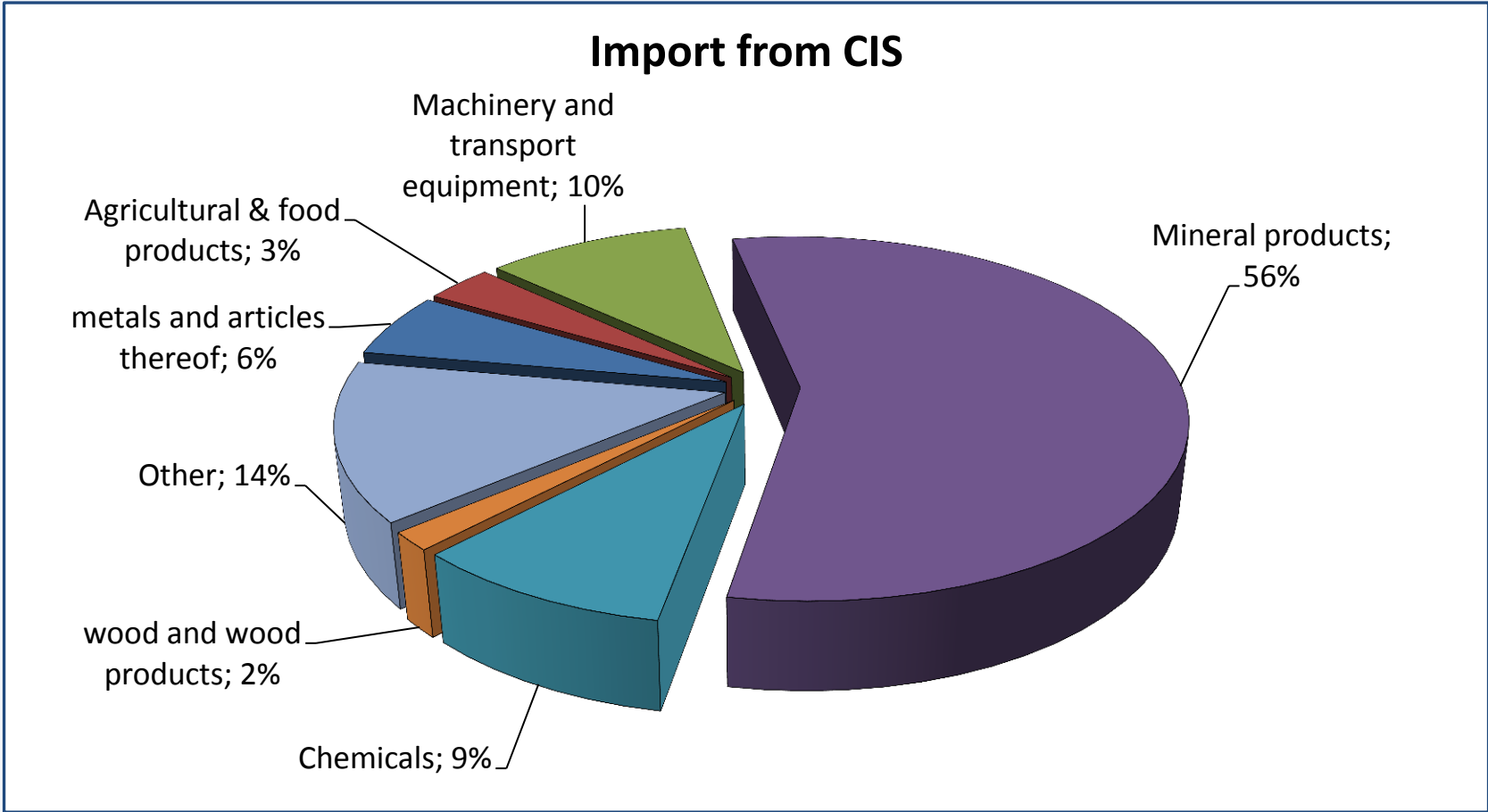


- Metal products and agriculture (raw materials) occupies more than a half of Ukrainian export to European Union.

Socioeconomic consequences of Association Agreement between the EU and Ukraine



➤ Import from EU is more high-quality: machinery, equipment, and chemicals.

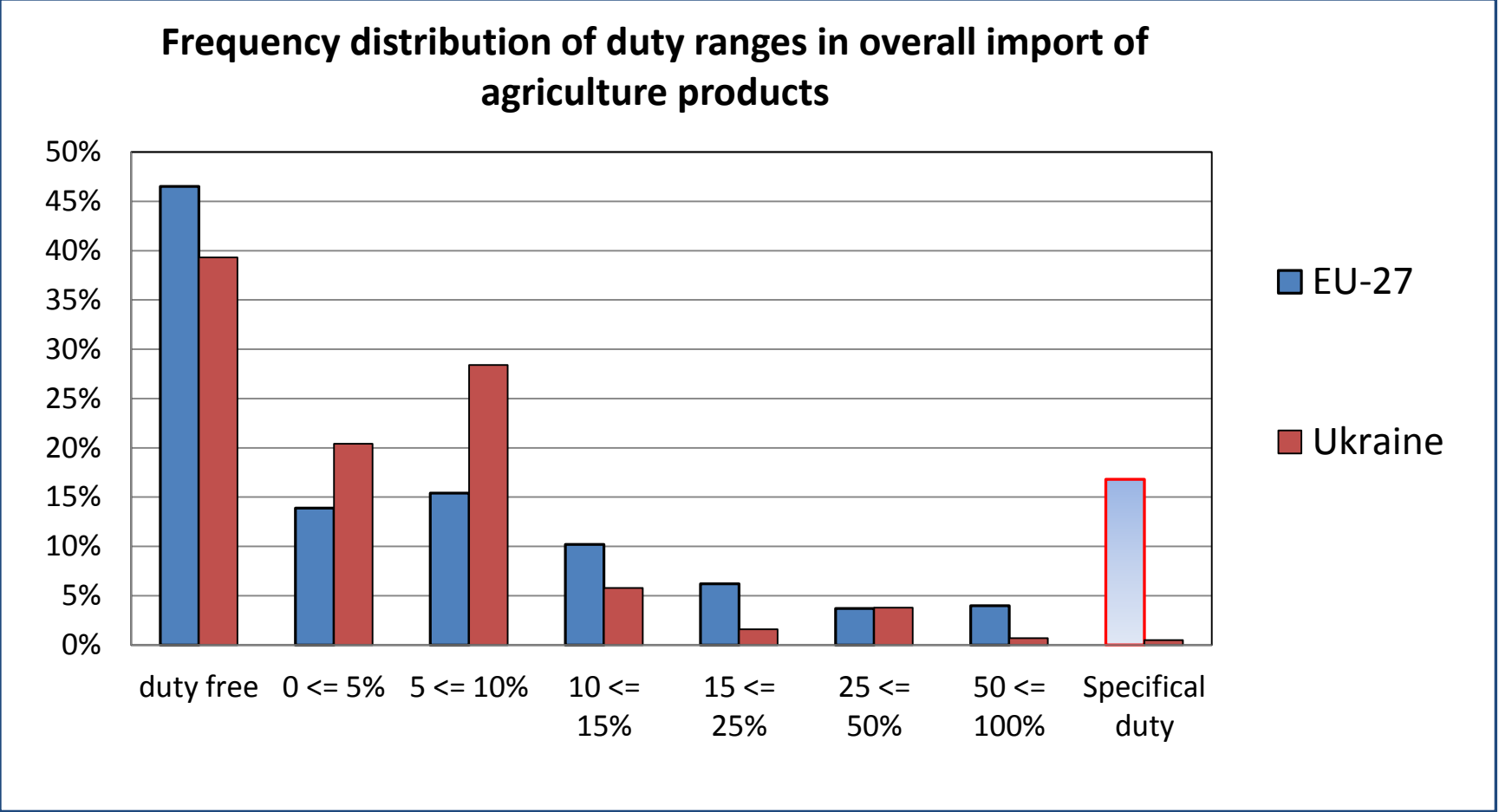


- Growing depend from the supply of mineral products, especially oil and gas from Russia.

Tariffs and imports in Ukraine and the EU-27

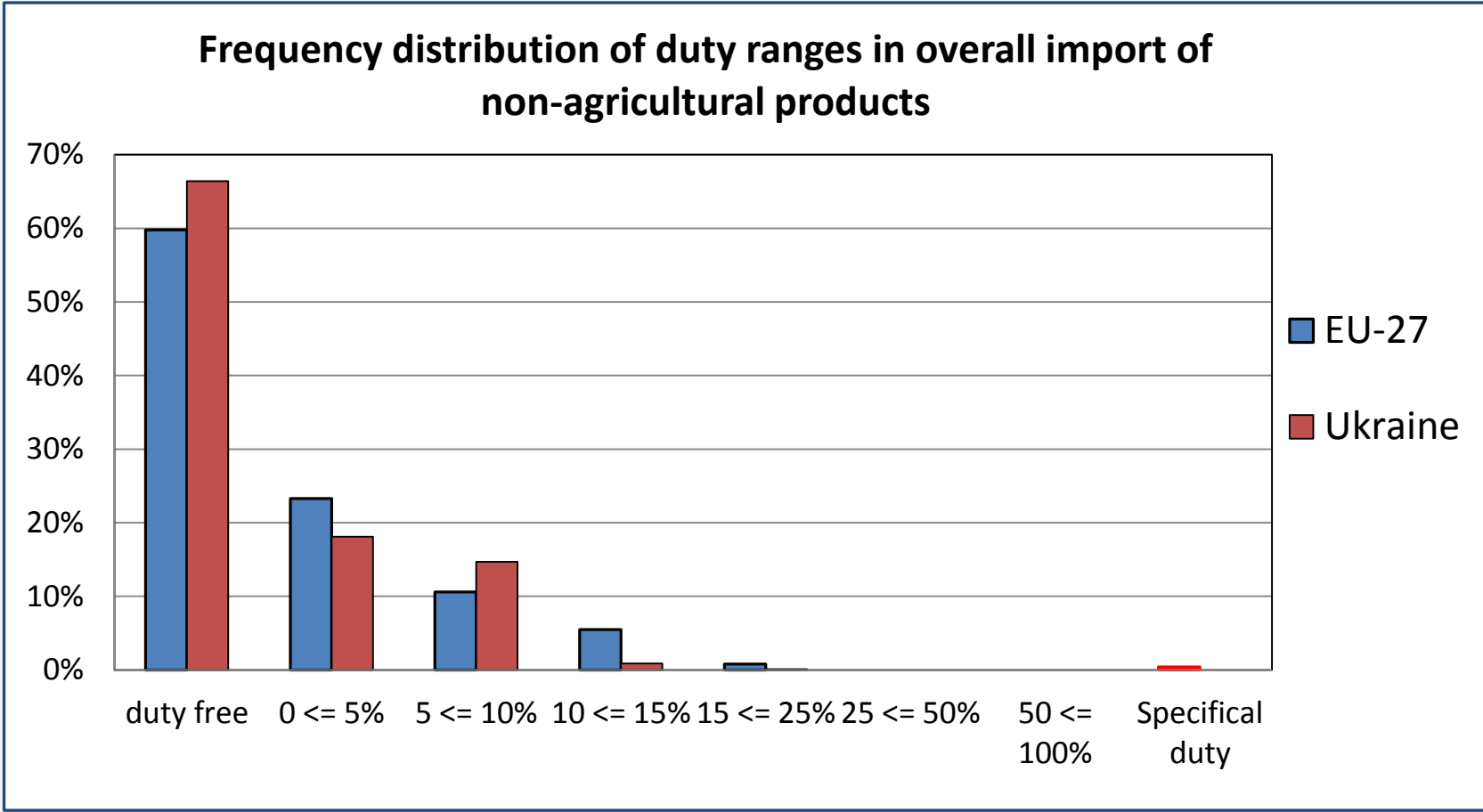
	Country / region	Simple average final bound,%	Simple average MFN applied, %	Imports in Bln US \$
Total	Ukraine	5.8	4.5	82.2
	Russian Federation	7.8	10.0	277.6
	EU-27	5.2	5.2	2171.4
Agricultural products	Ukraine	11 , 0	9.5	5.8
	Russian Federation	11.2	13.3	37.4
	EU-27	13.7	13.2	130.6
Non agricultural products	Ukraine	5 , 0	3.7	76.3
	Russian Federation	7.2	9.4	240.2
	EU-27	3.9	4.2	2040.8

Socioeconomic consequences of Association Agreement between the EU and Ukraine



- Lower average imports duties in EU nominal are lower than in Ukraine;
- Significant number specific duties to support European producers.

Socioeconomic consequences of Association Agreement between the EU and Ukraine



➤ Lower range of customs duties in non-agricultural segment and their negligible impact on export perspectives from Ukraine.

Ukraine should take the following steps:

1. Increase import duties on most "vulnerable" groups of products by using specific duties;
2. Optimize the tariff scale for all the product groups to reflect changes in the structure of foreign trade since the time of accession to the WTO;
3. To initiate review customs duties in the WTO for particular goods in order to protect the domestic market.
4. Develop more competitive branches of economy by investing in innovation and science

Estimated Impact of the FTA Ukraine-EU on the economic welfare and GDP

Scenario (symbol)	Equivalent variation (welfare) mln US \$		GDP,%	
	Ukraine	EU -27	Ukraine	EU-27
A	22	461	-0.4	0.01
(All commodities -50% custom reducing)				
B	-86	803	-0.97	0.02
(Industrial -100%, agricultural-50% custom reducing)				
C	195	675	-0.17	0.01
(Industrial -100%, agricultural -100% custom reducing, no export subsidies)				
D	5 716	873	7.82	0.002

The impact of the tariffs' elimination under the FTA Ukraine - EU to replace the output of industries in Ukraine

Industry	Scenario B
	Growth rate, %
Crop Production	1.96
Animal husbandry	-1.87
Commodities	-0.50
Food products	-0.13
Textiles	50.4
Clothing	0.37
Heavy Industry	-1.29
Transport	-0.65
Other services	-0.95
Total	4.99

Conclusions

1. Increase in surplus for Ukraine can provide only crop and textiles, while all other sectors of the economy are experiencing a significant decrease due to competition from European suppliers, leading to a decrease in production and worsening of trade balance
2. Ukraine is not ready for full liberalization of its market for goods from the Europe. Some sectors which are comparably uncompetitive, will reduce the production and export of goods, closing companies and reduction of working places, especially in the long run
3. Ukrainian authority should implement protection measures for internal manufacturers until they will switch to new standards according to an Association Agreement