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Ukraine Trade Brief

Trade Policy

Ukraine completed its accession to the World Trade Organization in May 2008. Based on the latest available MFN Tariff Trade Restrictive Index (TTRI)[1] for Ukraine, which is 4.2 percent, the country is about as open to trade as the average Europe and Central Asia (ECA) country but more open than the average lower-middle-income country, whose TTRIs are 4.4 and 8.4 percent, respectively. It ranks 52nd of 125 countries, where 1st is least restrictive. Ukraine's trade barriers for agricultural goods are slightly higher than those for non-agricultural goods, with TTRIs of 5.1 percent and 4.1 percent, respectively). Ukraine's simple average of the MFN applied tariff decreased to 4.3 percent in 2009 from 6.6 percent 2008. Agriculture tariffs were more than halved, falling from 20.6 percent to 9.8 percent on average. Also, the share of agricultural tariff lines with zero MFN tariff increased from 9.7 percent to 12.0 percent, and the share of agricultural tariff lines with duties higher than 15 percent (international peaks) dropped from 45 percent to 17 percent. Ukraine has also reduced its maximum MFN applied tariff, excluding alcohol and tobacco, from 166.6 percent in 2008 to 50 in 2009. The country's trade policy space, as measured by the wedge between bound and applied tariff levels (the overhang), was a low 1.3 percent in 2009. As part of its WTO accession, the country has bound fairly liberal regimes for market access and national treatment that apply to cross-border supply, consumption abroad, and commercial presence, across a wide range of services sectors.

In the context of rising food prices in 2007–08 and in an effort to maintain domestic supply, Ukraine imposed a grain export quota from July 2007 till May 2008.[2] In response to the global recession, the government imposed a temporary import duty surcharge of up to 13 percent in March 2009, in order to address balance of payments issues. The measure, which was supposed to last for six months, was eliminated in May 2009, except for imports of cars and refrigerators.[3] The country was among the top 10 countries who initiated the most anti-dumping investigations in 2008, having initiated seven cases. It also initiated one safeguard investigation (on matches) in 2008 (being one of eight countries to have done so), and another (on liquid chlorine) in 2009. To further support domestic industry, legislation restricts access of foreign companies to government procurement until the end of 2010, excepting goods not produced domestically.[4]

External Environment

Ukraine's exports face a more favorable trading environment as reflected in the Market Access TTRI[5] (including preferences) falling from 4.8 in 2006 to 3.1 percent in 2007. The country's rank improved to 63rd from 100th of 125 countries, where 1st faces the least restrictive global environment. However, the MA-TTRI suggests that Ukraine faced higher protection compared to the ECA and the lower-middle-income country group averages of 2.6 and 2.3 percent, respectively. The simple average of the overall rest of the world tariff (including preferences) facing Ukrainian exporters is 9.6 percent, but when weighted by actual exports it is 2.4 percent. The tariff faced by agricultural products is 6.4 percent and 1.8 for non-agricultural products. Ukraine, a major steel exporter,[6] was on the receiving end of two anti-dumping investigations in 2008. One was initiated by India in regard to Ukraine's exports of hot rolled products of steel; the other was initiated by the EU in regard to Ukraine's exports of welded tubes and pipes. In January 2009, a dispute arose with the Russian Federation's Gazprom company that led to the disruption in the supply of Russian gas to Ukraine and onwards to Europe through Ukraine's gas transit system. It was resolved with the signing of a new 10–year gas contract that eliminates Ukraine's access to Russian gas at below market prices.[7]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Ukraine is party to preferential trade with Russia, its largest export market (23 percent of goods exports in 2008) and import source (27 percent of imports). It is in the advanced stages of negotiations for a free trade agreement with the EU, and also started negotiations for a free trade agreement with the European Free Trade Association (EFTA) in April 2009.[8] The real effective exchange rate appreciated by 9.3 percent in 2008, making exporters less competitive abroad. Falling export revenues and capital outflows, forced Ukraine's currency, the hryvnia, to be devalued against the U.S. dollar by 28 percent in the fourth quarter of 2008. In the first quarter of 2009, the hryvnia experienced a real effective depreciation of 10.3 percent, and remained stable in the next quarter. The country plans to reduce foreign exchange restrictions under the IMF program.

Behind the Border Constraints

Ukraine remained in the bottom 20 percent of international business environments in 2009, being ranked 142nd out of 183 countries, in the Ease of Doing Business index. However, the country performs better in the Logistics Performance Index, which reflects the extent of trade facilitation in the country. It scores 2.55 on a scale of 1 to 5, with 5 being the highest score, slightly below the regional average of 2.59 and above the income group average of 2.47. Ukraine ranked 73rd in the world and 12th in the ECA region (with Turkey leading the regional group). Its strongest logistics indicators are timeliness of shipments in reaching their destination and domestic logistics costs, while the most lagging one is efficiency and effectiveness of customs and other border procedures. The global slowdown has also taken a toll on credit availability in Ukraine. As a means to counteract this, the government raised the funds of the Export-Import Bank of Ukraine through issuing additional stocks paid for by the Finance Ministry.[9] Also, in August 2008, the parliament granted the bank the status of an official export credit agency and created a state insurance company.[10]

Trade Outcomes

In 2008, Ukraine recorded a higher real (in constant 2000 U.S. dollars) trade growth of 7.9 percent compared to the average 2.2 percent over the 2005–07 period. The improvement in 2008 was influenced by a pickup in the real growth rates of both exports (2.5 percent) and imports (12.5 percent), compared to the average growth of negative 4.5 percent and 9.6 percent respectively, in the 2005–07 period. However, trade is expected to fall in 2009, with a steeper fall in imports as the economy contracts.

In nominal U.S. dollars, trade growth accelerated to 36.4 percent in 2008 compared to 31.5 percent the year before, driven by growth in both exports (33.8 from 27.4 percent) and imports (38.8 from 35.4 percent). Rising demand and prices for steel and steel products (which make up 40 percent of the country's exports)[11] led to riding export revenues in the first three quarters of 2008. Symmetrically, the collapse in external demand and prices for steel resulted in a *decline* in nominal goods exports in the first two quarters of 2009 of 40 percent and 52 percent, compared to the same period in 2008. Driven by the contraction in the economy and the reduced access to capital markets,[12] imports plummeted by 48 percent and 58 percent on a year-on–year basis in the first two quarters on 2009. There has been a large fall in the demand for equipment goods and cars. Consequently, the trade deficit contracted sharply.

FDI inflows increased in dollar terms in 2008, but fell as a share of GDP to 6.1 percent from 6.9 percent in 2007. The last quarter of 2008 and the first quarter of 2009 registered marked drops in FDI inflows.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. FAO, 2009.
3. Global Trade Alert, June 10, 2009.
4. WTO, July 15, 2009, p. 75.
5. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
6. IMF, May 2009, p. 4.
7. IMF, 2009, p. 5
8. EFTA, April 21, 2009.
9. Chauffour and Farole, June 19, 2009.
10. World Bank, PRMTR, June 6, 2009, p. 12.
11. EIU, June 2009, p. 19.
12. IMF, August 2009, pp. 4, 6.

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