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## Economic Consequences of the Realisation of the EU-Ukraine Association Agreement

**Abstract:** The article focuses on the features of the EU-Ukraine Association Agreement and the economic consequences of its implementation for Ukraine. The impact on foreign trade, export–import component of trade with the EU, problems and prospects for introducing European standards in Ukraine are determined. The study hypothesises that the EU-Ukraine Association Agreement has worsened the already weak economic situation in Ukraine and led to a reorientation of Ukraine’s foreign trade with a simultaneous loss of markets to which Ukraine exported high value-added products and their replacement for EU markets where only raw materials are exported. It also led to a loss of more than a quarter of its own industrial production and the gradual transformation of Ukraine into a raw material appendage of Europe.

**Key words:** Association Agreement, European integration, Deep and Comprehensive Free Trade Area

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“Especially where foreign policy is conducted under the conditions of democratic control, the need to marshal popular emotions to the support of foreign policy cannot fail to impair the rationality of foreign policy itself... For realism, theory consists in ascertaining facts and giving them meaning through reason. It assumes that the character of a foreign policy can be ascertained only through the examination of the political acts performed and of the foreseeable consequences of these acts”.

Hans Morgenthau (1967), *Politics among Nations: The struggle for power and peace*, New York, p. 4–7.

### Introduction

The negotiation on a new basic agreement between Ukraine and the European Union replacing the “Partnership and Cooperation Agreement” was launched in March 2007 (in 2008, the parties agreed on the

title of the future agreement – the Association Agreement). During the 15th EU-Ukraine summit (December 19, 2011, Kyiv), Ukraine and the EU leaders officially announced the completion of negotiations on the Association Agreement. On March 30, 2012, the heads of the negotiating delegations initialled the agreement in Brussels. In November 2013, a few days before the Vilnius Eastern Partnership Summit, where it was planned to sign an Association Agreement, the process of preparing for signing was terminated at the initiative of the Ukrainian Government. On November 21, 2013, the government adopted the order on suspension of preparation to conclude the Association Agreement between Ukraine and the EU. The following was noted: “In order to take measures to ensure the national security of Ukraine, study in detail the set of measures that must be carried out to restore the lost production and trade and economic relations with the Russian Federation and the other Member States of the Commonwealth of Independent States, to form the proper level of the domestic market which would provide parity relations between Ukraine and the European Union, which is the basic principle of international law and the basis of the economic security of the state:1. To suspend the preparation process to conclude the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand” (*Order of the Cabinet of Ministers of Ukraine*, 2013).

The refusal of Ukrainian President Viktor Yanukovich to sign an agreement with the European Union led to mass protest actions in Kyiv. After almost three months of confrontation, at the end of February 2014, a change of power took place in Ukraine. The new government ordered to restore the preparation process to sign an agreement. The signing of the Association Agreement between Ukraine and the EU went in two stages. On March 21, 2014, in Brussels, Ukraine and EU leaders signed the political part of the Agreement. On June 27, 2014, during the EU Council meeting, the President of Ukraine and the EU leadership and the heads of states and governments of 28 EU Member States signed the economic part of the Agreement. On September 16, 2014, the Verkhovna Rada of Ukraine and the European Parliament simultaneously ratified the Association Agreement between Ukraine and the EU. From January 1, 2016, provisions for free trade area began to operate temporarily. On September 1, 2017, all Member States finished the ratification process, and the Association Agreement between Ukraine and the EU entered into force in full.

The article aims to determine the features of the EU-Ukraine Association Agreement and the economic consequences of its implementation for Ukraine in 2014–2021, namely the impact on foreign trade, the export–import component of trade with the EU, problems and prospects of introduction the European standards in Ukraine. The study hypothesises that the EU-Ukraine Association Agreement has worsened the already weak economic situation in Ukraine, and led to a reorientation of Ukraine’s foreign trade with a simultaneous loss of markets to which Ukraine exported high value-added products and their replacement for EU markets where only raw materials are exported. It also led to loss of more than a quarter of its own industrial production, the gradual transformation of Ukraine into a raw material appendage of Europe.

To achieve the study’s objectives, the author used Political realism as a theoretical and methodological approach for research. This approach is based on the allocation of national interests as the basis of the foreign policy of any state. The use of the method of historical analysis made it possible to trace the evolution of relations between Ukraine and the EU to characterise the process of signing and implementing the Association Agreement. The study used the method of data analysis to determine the main economic indicators in different sectors of the economy of Ukraine in the process of implementing the Association Agreement. The data analysis technique was focused on statistical modelling and knowledge discovery for predictive rather than purely descriptive purposes. A comparative analysis method was used to compare the main indicators of economic development in different years of the period analysed in the article. It allowed determining the positive and negative aspects of the influence of the free trade area with the EU on the economy of Ukraine.

### **Ukrainian Agreement Association with the EU Compared to Other Agreements**

The Association Agreement with the European Union is an agreement between the European Union and a non-EU country that establishes a framework for cooperation. Areas of cooperation include the development of political, trade, social, and cultural ties and the strengthening of security. The EU usually concludes an association agreement in exchange

for a commitment to political, economic, or judicial reform. Instead, the signatory country can receive tax-free access to EU markets and financial or technical assistance. The Association Agreement may contain a free trade agreement between the EU and a third country. The legal basis of the Association Agreements is regulated by Article 206 of the Lisbon Treaty as of 13 December 2007, which states: “The Community may conclude with one or more States or international organisations agreements establishing an association involving reciprocal rights and obligations, common action and special procedures. The Council shall conclude these agreements, acting unanimously after consulting the European Parliament” (*Treaty of Lisbon*, 2007, p. 201). Following the signing of the Association Agreement, all EU Member States must ratify it. Throughout its existence, the European Community has signed Association Agreements with both future members and countries that cannot or do not plan to become members of the EU. Nowadays, the European Union has signed the Association Agreements with the Republic of Chile, Algeria, Egypt, Lebanon, Jordan, Israel, Morocco, Tunisia, the Socialist Republic of Vietnam, and others.

The signing of the Agreement is not a mechanism for the country’s accession to the European Union and is not a guarantee of such action in the future, although most modern EU members had such agreements before joining the Community. However, the agreements between the EU and future members usually had different titles. The agreements signed with Ukraine, Moldova and Georgia are called the Association Agreement (AA). The agreements signed with future EU members from Central and Eastern Europe were named Europe Agreement Establishing an Association (EAEA).

But it is not just the name of the agreement. The future Member States, such as Central and Eastern Europe, signed the Association Agreements in the 1990s to guarantee future EU membership, which was enshrined in the agreement itself. For example, the aim of the Europe Agreement establishing an association between the European Communities and their Member States, on the one part, and the Republic of Poland, on the other part is: to provide an appropriate framework for Poland’s gradual integration into the European Community, to this end, Poland shall work towards fulfilling the necessary conditions (*Europe Agreement (with the Republic of Poland)*, 1993, p. 4). Similarly, the agreement with Hungary states that the objectives of this Association are: to establish new rules, policies and practices as a basis for

Hungary's integration into the Community (*Europe Agreement (with the Republic of Hungary)*, 1993, p. 3).

The EU-Ukraine Association Agreement does not contain any information on possible membership in the European Union. In addition, the Agreement's ratification process has shown that the European Union, by signing the Agreement, does not provide any obligations regarding the possible membership of Ukraine in the EU. The decision made by the European Council after the suspension of the ratification process of the Agreement by the Netherlands in 2016 confirms that fact. Consider this situation in more detail. The EU-Ukraine Association Agreement was signed in 2014. All Member States of the European Union began to ratify the Agreement. However, the Agreement's ratification process was suspended because on April 6, 2016, 61% of Dutch people voted against the EU-Ukraine Association Agreement in a consultative referendum in the Netherlands. Final ratification of the Agreement became possible only with the adoption of the European Council Decision on Ukraine on December 15, 2016. This decision is legally binding and can be amended or revoked only by mutual consent of the heads of state and government. In this decision, the Heads of State or Government of the 28 Member States of the European Union have decided to adopt the following, as their common understanding, which is to take effect once the Kingdom of the Netherlands has ratified the Agreement and the European Union has concluded it:

- A) While aiming to establish a close and lasting relationship between the parties to the Agreement based on common values, the Agreement does not confer on Ukraine the status of a candidate country for accession to the Union, nor does it constitute a commitment to confer such status to Ukraine in the future.
- B) The Agreement reaffirms cooperation with Ukraine in the fields of security, notably with regard to conflict prevention, crisis management and non-proliferation of weapons of mass destruction. It does not contain an obligation for the Union or its Member States to provide collective security guarantees or other military aid or assistance to Ukraine.
- C) While setting out the objective of enhancing the mobility of citizens, the Agreement does not grant Ukrainian nationals or Union citizens, respectively, the right to reside and work freely within the territory of the Member States or Ukraine. The Agreement does not affect the right of Member States to determine volumes of admission of Ukrain-

ian nationals to their territory to seek work, whether employed or self-employed.

- D) The Agreement reiterates the commitment of the Union to support the reform process in Ukraine. The Agreement does not require additional financial support by the Member States to Ukraine, nor does it change each Member State's exclusive right to determine the nature and volume of its bilateral financial support (*European Council Conclusions*, 2016).

Thanks to the "European Council Conclusions on Ukraine", the ratification of the Association Agreement by the European Union was completed on July 11, 2017 (approval by the Council of the European Union). The agreement entered into force on September 1, 2017.

Thus, the adopted document shows that the European Union has tried in every possible way to withdraw from any commitment to Ukraine's future membership in the EU after the ratification of the Association Agreement. The agreement, which experts predicted could harm Ukraine's economic and social situation (*Mozhlyvosti*, 2013; Nikiforova, 2013; *Vplyv stvorennia*, 2013), was signed without declaring Ukraine's common intentions for EU integration and any commitment to grant candidate status in the future.

Therefore, it is possible to agree with the opinion of Polish scientist Ryszard Zięba that as a whole, the policy of the European Union, but also that of the USA, toward Ukraine was vague and inconsistent. The proposed association agreement was not a preliminary step leading to EU accession at a later time. It aimed to promote and consolidate democratic and market reforms that would have drawn Ukraine into the West's orbit (Zięba, 2018, p. 237). He also claims that the cost of these reforms may be too high for Ukraine. "Ukraine now needs to carry the weight of the market reforms that the association agreement signed with the EU entails and it is not certain it can rise to the challenge. In addition, Ukrainian society is tired of the ongoing crisis and the civil war in its eastern regions. It is thus uncertain if the vague prospects of the pro-European choice will be able to convince this society to assume the cost of socially painful reforms. The frequently raised analogies to the Polish situation at the time of the introduction of Balcerowicz's plan seem inadequate. The then European Community made a clear promise of membership to the Poles in 1991, whereas such a promise was not made to the Ukrainians, who additionally have to face economic pressure from Russia" (Zięba, 2018 p. 252).

### General Economic Situation in Ukraine in 2013–2020

It is important to know the initial economic situation and how it has changed over the years of the Agreement to understand the economic consequences of the Association Agreement for Ukraine. Since 2014, Ukraine has had an economic development recession. In 2014, the country's gross domestic product (GDP) decreased by 28%; in 2015 it fell by 2 times compared to 2013 (Table 1). In 2019, Ukraine moved to the last place in Europe in terms of GDP per capita, and is below countries such as Belarus, Georgia, Turkmenistan, Moldova, Azerbaijan, Armenia and others. This figure was lower only in Tajikistan, Kyrgyzstan and Uzbekistan (*Rating of the countries*, 2019). The decline in these indicators can be partially explained by the territorial losses of Ukraine (annexation of Crimea and loss of control over Donbas). According to German researchers, Julia Bluszcz and Marica Valente, who in the result from the counterfactual estimation by the synthetic control method indicate that due to the Donbas war, the country's (Ukraine) per capita GDP decreased by 15.1% (1438.90\$) on average over the period 2013–2017 (Bluszcz, Valente, 2019, p. 20). Crimea and Donbas' GDP share in Ukraine's total GDP was estimated at 3.7% and 10%, respectively (Kasperovych, 2018, p. 10). Taking this into account, the crisis in Ukraine's economy was not only due to Ukraine's territorial losses, but had much deeper causes.

Table 1

#### Gross domestic product and foreign trade balance of Ukraine (million dollars) according to the Ministry of Finance of Ukraine

Year	Nominal GDP	Export of goods and services	Imports of goods and services	Export–import balance
2013	183,310	85,237	–100,708	–15,471
2014	131,805	48,866	–52,927	–4,061
2015	90,615	43,907	–45,566	–1,659
2016	93,270	43,201	–48,662	–5,461
2017	112,154	50,952	–57,668	–6,716
2018	130,832	58,125	–69,180	–11,055
2019	153,781	69,088	–82,226	–13,138
2020	155,582	58,857	–60,443	–1,586

Source: <https://index.minfin.com.ua/ua/economy/gdp/eximp/>.

According to official data, the total inflation in 2014–2018 was 104.1%. Hundreds of enterprises were closed, and the volume of industri-

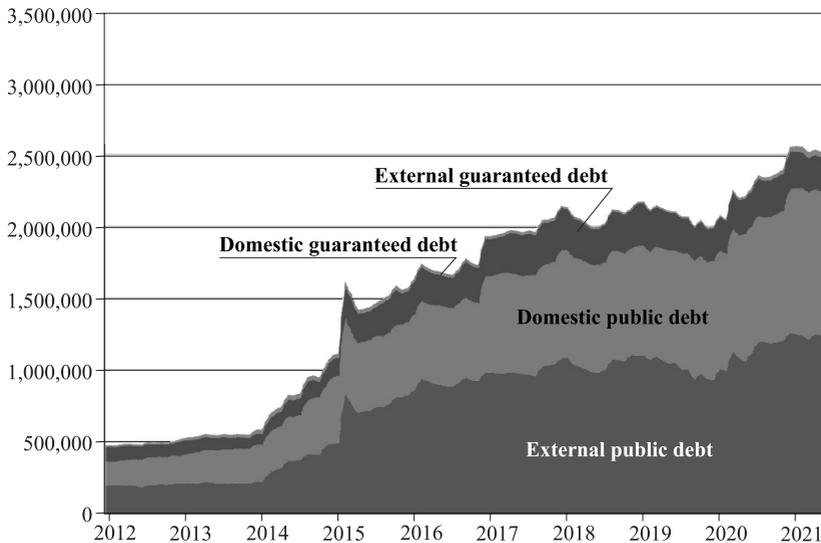
al production in 2019 amounted to only 71% of 2013. Domestic turnover (in dollars) in Ukraine in 2018 decreased by 3.2 times compared to 2013 (*Statistika*, 2019). There was a decrease in real incomes due to the abolition of some social benefits, reduction of transport subsidies, rising costs of housing and communal services, new taxes and fees, and salaries and pensions freezes. Today, more than half of the population – 58.7% – have incomes below the average level (i.e., less than \$342 per month). 30.5% of Ukrainians have incomes less than the real living wage of \$119. 2.1% of people in Ukraine live on incomes below the legally established living wage (less than \$63) (Romanyuk, 2018). The national currency depreciated by 4 times over 5 years. In the country's banking system, there were massive bankruptcies, an outflow of deposits, and a shortage of currency. People could only buy currency on the black market. In the country's banking system, there were massive bankruptcies, an outflow of deposits, and a shortage of currency, which the population could only buy on the black market. The country has a high unemployment rate: officially up to 10% on average over the past 5 years (*Riven bezrobittia*, 2019), but the hidden unemployment rate is not reflected in official data and can be 10–30%.

During this period, there was a significant decline in foreign trade. It decreased by 2 times in 2014–2015. The negative balance of foreign trade is increasing (Table 1). It amounted to 13.138 billion dollars in 2019. Ukraine needs to find currency to buy goods in short supply in the domestic market, so public debt is growing rapidly. International financial organisations helped Ukraine to stabilise the economic downturn. It is not enough anymore in the face of slowing down structural and modernisation reforms.

General payments for the repayment and servicing of public debt put a significant burden on the state budget and in 2020 amounted to UAH 505.1 billion (47% of state budget revenues), and increased to UAH 627.1 billion in 2021 (57.9% of state budget revenues) (*Report on the implementation*, 2020, p. 2; *Public Debt Management Program*, 2021, p. 1). That means a growing dependence of the budget on debt financing. It is a negative trend that indicates an increase in debt risks. Ukraine remains critically dependent on external funding. A high debt burden will remain one of the main threats to the country's financial stability in the coming years. Currently, the size of the public debt is 60.8% of Ukraine's GDP (*State debt of Ukraine*, 2021).

Today, Ukraine is most dependent on IMF loans. Over the years of cooperation with the IMF, Ukraine's lending programs have been reviewed

**Figure 1. Change in Ukraine’s public debt from 2012 to 2021 (UAH million)**



**Source:** <https://index.minfin.com.ua/finance/debtgov/>.

and adjusted, but none of them has been fully implemented. At the same time, the Fund’s list of requirements for Ukraine remained virtually unchanged. It included compliance with budget deficit parameters, introducing market tariffs for natural gas for the population, raising the retirement age, waiving state support for Naftogaz, reducing administrative costs, etc. However, the Ukrainian government did not meet these conditions due to the desire to prevent the escalation of social problems until 2013. Thus, the government led by Mykola Azarov in 2013 refused to fulfil its obligations to increase gas tariffs for the population, a key requirement of the Fund. As a result, the IMF program for Ukraine was frozen. The governments that came to power after 2014 regularly fulfilled these requirements despite the negative social consequences for the population of Ukraine.

IMF loans must be given to Ukraine on terms that negatively affect the social situation of the population. At the request of the International Monetary Fund, the government of Ukraine has increased tariffs for gas, electricity and heating for the population, raised the retirement age to 60–65 years (depending on the employment period), and reduced the number of schools and hospitals since 2014. The government also lim-

ited the practice of a simplified tax regime, introduced a floating hryvnia exchange rate, lifted the moratorium on the sale of agricultural land, and reduced the number of public sector workers (mainly by vacancies), as well as salaries and social benefits were frozen. In the summer of 2014, a large-scale economic and political crisis broke out in the country. The above measures at the request of the IMF were carried out in a country where, according to the data published by the United Nations Children's Fund (UNICEF) in July 2021, 9.8 million people (22.4% of Ukraine's population) are undernourished and 1.1 million people experience severe food insecurity (in 2017–2020 their number increased by 200 thousand people). It is the worst figure among all European countries (*Report "The State of Food Security"*, 2021, p. 154). The increase in gas prices at the request of the IMF during 2014–2020 led to an increase in gas prices by 8 times. The population cannot pay for housing and communal services, so in 2021 the population's debts reached UAH 81 billion. (\$ 2.9 billion) (*Pro oplatu naseleinniam*, 2021).

The money from the IMF is used to pay off the public debt, support foreign exchange reserves and finance the deficit of the state budget of Ukraine. They cannot be used to develop the economy, namely for developing infrastructure, manufacturing, the introduction of innovations, and jobs creation. Therefore, IMF loans do not help the country stop the economic crisis, they only aggravate it. It leads to even greater debts. Using the example of Ukraine's relations with the IMF in 2014–2021, it is evident that, despite financial support, the country has not been able to embark on the path of stable, progressive economic growth.

### **Volumes of Trade Between Ukraine and the EU During the Implementation of the Association Agreement**

The provisions regarding the free trade area between the EU and Ukraine came into effect in the mode of temporary application on January 1, 2016. One needs to agree that since DCFTA entered into force, bilateral trade between the EU and Ukraine has risen by 49%, from €29 bn in 2016 to €43.3 bn in 2019. Export to Ukraine has increased by 49%, from €16.2 bn to €24.2 bn while import from Ukraine increased by 48%, from €12.9 bn to €19.1 bn (Table 2). In 2019, the EU was the biggest trading partner for Ukraine, accounting for 40% of the country's total trade (*Association agreement*, 2020, p. 58).

Table 2

**European Union, Trade with Ukraine**  
**Total goods: EU Trade flows and balance**

Period	Imports			Exports			Balance	Total trade
	Value Mio €	% Growth	% Extra- EU	Value Mio €	% Growth	% Extra- EU	Value Mio €	Value Mio €
2010	11,315		0.8	16,943		1.2	5,628	28,258
2011	14,907	31.7	0.9	20,798	22.8	1.3	5,891	25,704
2012	14,323	-3.9	0.8	23,331	12.1	1.3	9,008	37,654
2013	13,441	-6.2	0.8	23,344	0.1	1.3	9,903	36,785
2014	13,240	-1.5	0.8	16,655	-28.7	0.9	3,414	29,895
2015	12,504	-5.6	0.8	13,719	-17.6	0.7	1,215	26,223
2016	12,860	2.9	0.8	16,176	17.9	0.9	3,316	29,037
2017	16,239	26.3	0.9	19,838	22.6	1.0	3,500	36,077
2018	17,426	7.3	0.9	21,550	8.6	1.0	4,124	38,976
2019	19,126	9.8	1.0	24,157	12.1	1.1	5,032	43,283
2020	16,513	-13.7	1.0	23,144	-4.2	1.2	6,631	39,656

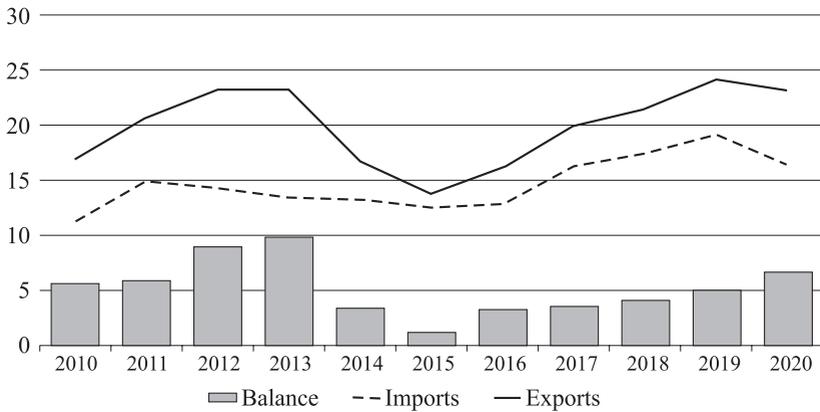
% Growth: relative variation between current and previous period.

% Extra-EU: imports/exports as % of all EU partners i.e. excluding trade between EU Member States.

However, it should be taken into account that the trade growth with the EU occurred after its fall in 2014–2015. In 2014, trade fell by 18.7%, in 2015 by 12.3% (calculated according to *European Union*, 2021, p. 3). If compared with 2013, the period before the signing of the Agreement, then trade in 2020 increased by only 7.2% (Table 2). Thus, in 2020, Ukraine's trade with the EU is only slightly higher than in 2013, as seen in the following chart. Ukraine already had similar volumes of trade and they do not result from the Association Agreement.

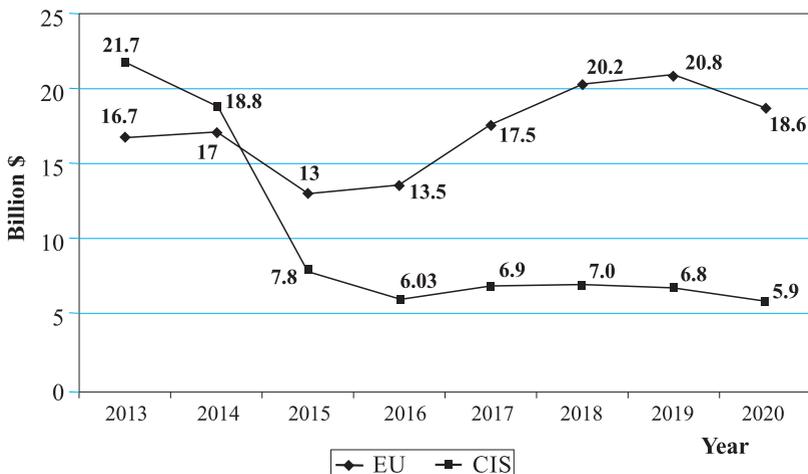
Also, despite the action of the EU-Ukraine Deep and Comprehensive Free Trade Area and improvement of trade conditions, the negative trade balance of Ukraine in trade with the European Union continues to persist at -6.6 billion euro in 2020 (*Ukraine-EU – international trade*, 2021).

At the same time, it should be emphasised that after signing the Association Agreement, Ukraine transformed its foreign trade and lost significant volumes of trade with the CIS countries. Therefore, a slight increase in foreign trade with the EU has not given Ukraine an economic advantage. Trade with the EU did not compensate for the loss of markets and trade with other countries, including the CIS, as shown in the following chart. Exports of goods from Ukraine to the CIS decreased from \$21.7 billion in 2013 to \$5.9 billion in 2020 (Chart 2). Ukraine's export losses

**Chart 1. EU trade in goods with Ukraine, 2010–2020 (€ billion)**

**Source:** Eurostat (online code: ext\_st\_eu27\_2020site and DS-018995).

in trade with the CIS in 2014–2020 amounted to about \$92.7 billion (estimated according to *Dovidka* “*Zovnishnia torhivlia Ukrainy*, 2020). It is more than half of Ukraine’s GDP in 2020.

**Chart 2. Dynamics of export of goods from Ukraine to the EU and CIS countries in 2013–2020 (\$ billion)**

In accordance with the statistics of the Ministry of Economy of Ukraine <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=e8551533-1004-4210-9980-a3a50e134096&tag=InformatsiinoanalitichniMateriali>.

Table 3

## Ukraine's top trading partners

## Total goods: Top trading partners 2020

Partner	Imports		Exports		Total trade	
	Value Mio €	%World	Value Mio €	%World	Value Mio €	%World
World	47,195	100.0	43,104	100.0	90,298	100.0
1 EU27	19,738	41.8	15,719	36.5	35,457	39.3
2 China	7,227	15.3	6,232	14.5	13,459	14.9
3 Russia	3,986	8.4	2,371	5.5	6,357	7.0
4 USA	2,586	5.5	2,132	4.9	4,240	4.7
5 Belarus	2,516	5.3	1,727	4.0	3,686	4.1
6 Turkey	2,108	4.5	1,417	3.3	3,452	3.8
7 Japan	942	2.0	1,170	2.7	2,358	2.6
8 Switzerland	808	1.7	865	2.0	1,487	1.6
9 United Kingdom	701	1.5	644	1.5	1,286	1.4
10 India	631	1.3	622	1.4	1,103	1.2
1 EU27	19,738	41.8	15,719	36.5	35,457	39.3

World trade: excluding intra-region trade.

Top partners: excluding region member states.

% Growth: relative variation between current and previous period.

Source: IMF.

Table 4

## EU top trading partners

## Total Goods: Top trading partners 2020

Partner	Imports			Exports			Total trade		
	Value Mio €	% Extra-EU	Partner	Value Mio €	% Extra-EU	Partner	Value Mio €	% Extra-EU	Partner
World	1,713,840	100.0	World	1,932,237	100.0	World	3,646,078	100.0	
1 China	383,888	22.4	1 USA	353,353	18.3	1 China	586,737	16.1	
2 USA	202,877	11.8	2 United Kingdom	277,728	14.4	2 USA	556,230	15.3	
3 United Kingdom	167,238	9.8	3 China	202,849	10.5	3 United Kingdom	444,966	12.2	
4 Switzerland	108,599	6.3	4 Switzerland	142,368	7.4	4 Switzerland	250,967	6.9	
5 ussia	95,037	5.5	5 Russia	78,977	4.1	5 Russia	174,014	4.8	
6 Turkey	62,466	3.6	6 Turkey	69,887	3.6	6 Turkey	132,353	3.6	
7 Japan	54,934	3.2	7 Japan	55,119	2.9	7 Japan	110,053	3.0	
8 South Korea	44,105	2.6	8 Norway	48,604	2.5	8 Norway	90,673	2.5	
9 Norway	42,069	2.5	9 South Korea	45,291	2.3	9 South Korea	89,397	2.5	
10 Vietnam	34,420	2.0	10 Canada	33,460	1.7	10 India	65,191	1.8	
19 Ukraine	16,513	1.0	18 Ukraine	23,144	1.2	18 Ukraine	39,191	1.1	

Source: Eurostat Comext — Statistical regime 4.

The following statistical indicators show significant losses from the reorientation of Ukraine's foreign trade to the European Union. In 2013, foreign trade in goods with the EU amounted to 31.85%, and with the CIS countries – 35.7% (*Zovnishnia torhivlia Ukrainy*, 2014, p. 12). In 2020, trade in goods and services with the EU reached 40.9%, and with the CIS countries decreased by 2.5 times to 14.8% (*Dovidka "Zovnishnia torhivlia Ukrainy*, 2020, pp. 5–6).

The fast transformation of Ukraine to the European Union market was accompanied by a sharp decline in trade with Russia. It was largely the result of the introduction of mutual Ukrainian-Russian sanctions and the suspension of the free trade zone between them since January 2016 (*Postanova Kabinetu Ministriv Ukrainy*, 2015; *Ukaz Prezidenta Rossiyskoy Federatsii*, 2015). Also, Ukraine began to systematically violate the free trade regime in relation to the Republic of Belarus, which was spelt out in the agreement on the free trade area between CIS countries. In particular, in November 2020, Ukraine introduced a duty on certain metal products from Belarus, and in April 2021, according to the decision of the Interdepartmental Commission on International Trade of Ukraine, a separate duty was introduced on wheeled vehicles from Belarus (*Pro vstanovlennia faktiv*, 2020–2021). Belarus took retaliatory measures toward Ukraine (*Postanovlenie Soveta Ministrov*, 2021). Mutual restrictions have an extremely negative impact on exports and the total volume of trade in Ukraine and structural shifts in its economy. Similar volumes of products do not compensate the loss of the Russian and Belarusian markets on the European Union market. It is caused both by the restrictions in the EU and the low competitiveness of most types of Ukrainian products.

It is important that for Ukraine, the share of the EU in trade in 2020 is 41.8%, but the share of Ukraine in trade with the EU is only 1% (Table 3, 4). Thus, the Ukrainian market is not of much interest to the European Union, as the EU market is for Ukraine.

### **Export–Import Component of EU Trade with Ukraine**

The analysis of Ukraine's export–import trade component with the EU is important for determining the effectiveness of the Association Agreement. It should be noted that its structure has hardly changed since the signing of the Agreement. As in 2013, machinery and transport equipment and high value-added products made up only 13% of Ukrainian exports to the EU, so in 2020 it was 13.3% of total exports to the EU.

Table 5

## European Union, Trade with Ukraine

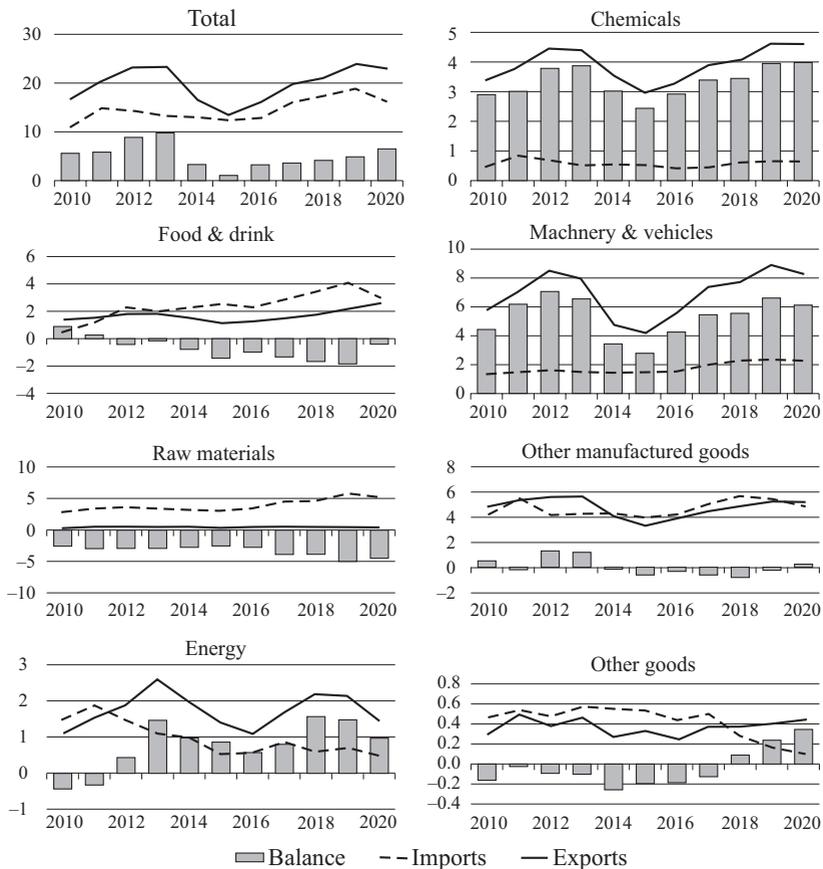
## Trade flows by SITC section 2020

	Imports			Exports			
	Value Mio €	% Total	% Extra- EU	Value Mio €	% Total	% Extra- EU	% Growth
Total	16,513	100.0	1.0	23,144	100.0	1.2	-4.2
0 Food and live animals	3,026	18.3	2.9	2,029	8.8	1.6	17.8
1 Beverages and tobacco	47	0.3	0.5	591	2.6	1.7	23.2
2 Crude materials, inedible, wxcept fuels	3,509	21.3	5.1	508	2.2	1.1	-7.6
3 Mineral fuels, lubricants and related materials	467	2.8	0.2	1,414	6.1	2.2	-34.0
4 Animal and vegetable oils, fats and waxes	1,571	9.5	14.1	52	0.2	0.8	-0.7
5 Chemicals and related prod, n.e.s.	636	3.9	0.3	4,619	20.0	1.1	0.2
6 Manufactured goods classified chiefly by material	3,866	23.4	2.0	3,001	13.0	1.5	-5.1
7 Machinery and transport equipment	2,199	13.3	0.4	8,305	35.9	1.1	-6.7
8 Miscellaneous manufactured articles	1,093	6.6	0.4	2,191	9.5	1.0	2.6
9 Commodities and transactions n.c.e.	60	0.4	0.2	169	0.7	0.4	-17.5
Other	39	0.2	n.a.	265	1.1	n.a.	n.a.

Source: Eurostat Comext – Statistical regime 4.

The share of raw materials, agricultural products, and low value-added goods exported from Ukraine to the European Union is 86.7%. At the same time, 35.9% of cars and transport equipment are imported to Ukraine from the EU. Therefore, a slight increase in exports to the European market in recent years is attributed to an increase in demand for Ukrainian raw materials. The EU market, with its high technical standards, is unlikely to become a market for selling Ukrainian high value-added goods in the near future. Ukraine exports to the EU mainly raw materials and low value-added goods and imports more high-tech products.

**Chart 3. EU trade with Ukraine by product group, 2010–2020 (€ billion)**

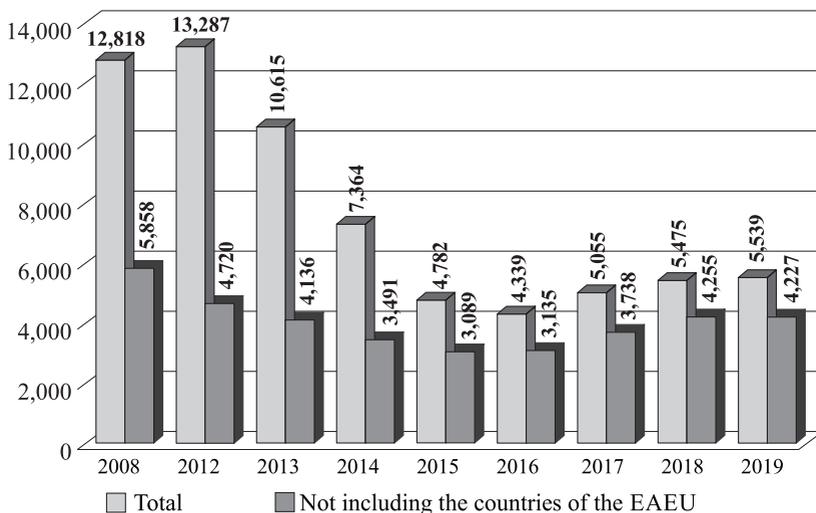


Source: Eurostat (online data code: ext\_st\_eu27\_2020sitc and DS-18995).

Ukraine does not produce new competitive high value-added goods for the European market, and those produced earlier reached the peak of their demand. The dynamics of trade between the EU and Ukraine by product groups over the last 10 years are presented in the chart.

Until 2014, the CIS countries were the market for high value-added Ukrainian goods, including machinery and transport equipment. Ukraine exported 30% of such goods there. Today, export of these goods has decreased by 2 times. However, the total export of machinery, equipment and vehicles in 2013–2019 fell almost two times – from \$10.6 billion to \$5.5 billion. It was caused largely by the loss of the Russian market, which in 2013 made up more than half (51.7%) of all Ukrainian machinery export. In addition, the share (and value of supplies) of the chemical, metal products and metal in Ukrainian export to the EU has significantly decreased. Below are the indicators of total export of machinery products and the share not including the countries of the Eurasian Economic Union.

**Chart 4. Export of machinery products from Ukraine (million dollars)**



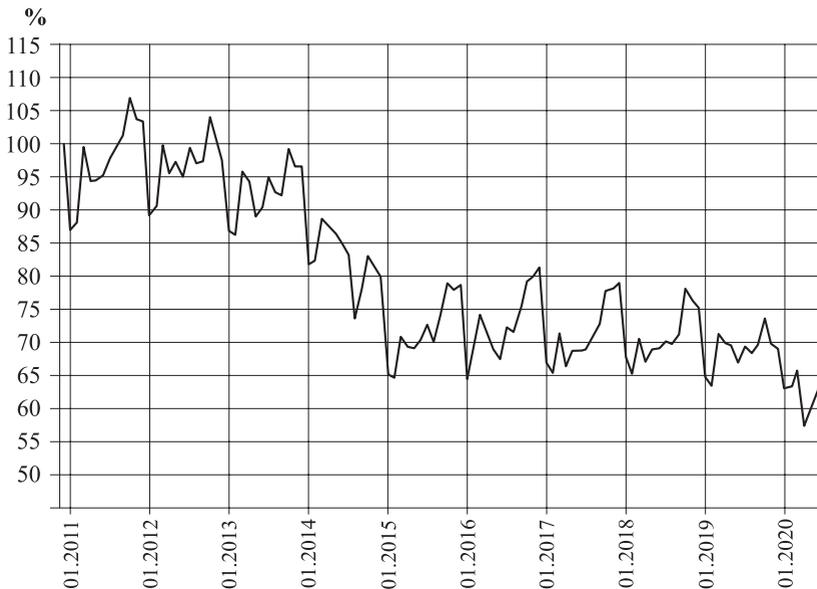
**Source:** <https://liberal.in.ua/articles/analytika/eksport-mashynobudivnochs-produkcicis-z-ukracsny-u-2019r.-u-stagnaciy>.

Ukraine lost most in exports of such machinery products as nuclear reactors, boilers, cars, land vehicles, aircraft, and floating vehicles. The implementation of the EU-Ukraine Association Agreement in the first years

led to a decrease in Ukrainian manufacturing by 20%, and machinery by 17% (Sierikova, 2017, p. 93).

But this would not be a problem for Ukraine if it found other markets for high value-added goods. The reality is that Ukraine has lost these markets and lost a significant part of its manufacturing and production (Chart 5). In 2014–2021, there is a constant decline in manufacturing caused by both economic crisis and loss of industrial enterprises in the territory of Donbas which Ukraine does not control. Having not recovered after the collapse in 2014–2015, in 2016–2021, the manufacturing went into the red. If in 2018 industrial production made up 82% of the level in 2013, then in 2021 – 70% of the level in 2013. And this is a very bad trend for the Ukrainian economy. After all, even in terms of the post-industrial economy, manufacturing for Ukraine is still a source of GDP growth, jobs and foreign currency inflow. When Ukrainian foreign trade focused on the European Union, the machinery was quickly left without cash from the export of goods and with a high level of debt on loans that many machinery enterprises could not service.

**Chart 5. Dynamics of changes in the industrial production index in Ukraine in 2011–2021**



Source: <https://index.minfin.com.ua/economy/index/industrial/>

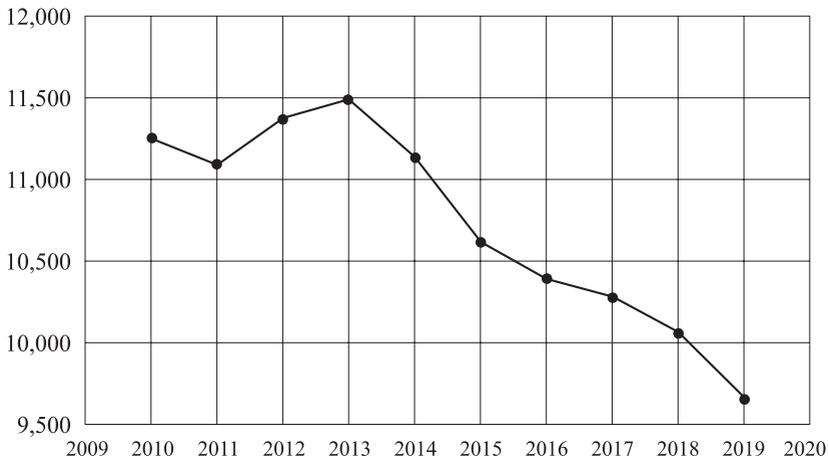
Thus, the reorientation to the EU market was accompanied by a deterioration in the sectoral structure of Ukrainian exports. Ukraine is turning mainly into a supplier of agricultural raw materials from an exporter of rocket and aviation equipment, turbines, diesel locomotives, mining equipment and vehicles. The loss of traditional markets for the export of high-tech and medium-tech products has launched a deindustrialisation mechanism, increasing the unemployment rate and labour emigration in the country. It will be impossible for Ukraine to restore lost production. There is no investment in setting up new enterprises, lost markets, specialists have emigrated to other countries, and there is no one to prepare new ones. Therefore, Ukraine is at risk of becoming a consumer of other people's technological ideas forever.

The signing of the Agreement on Conformity Assessment and Acceptance of Industrial Goods (ACAA), which is planned in Article 57 of the Association Agreement, could improve the situation with the export of Ukrainian industrial products to the EU. But the signing of the agreement (ACAA) will be preceded by a long period of negotiations, during which there will be a further loss of industrial production in Ukraine. The agreement will apply only to industrial goods covered by technical regulations. Annex III of the Association Agreement lists 27 areas in which Ukraine has committed itself to making technical regulations compatible with EU standards. Of these 27 areas, only three were included in the "first round" of negotiations: machinery, electromagnetic compatibility and low-voltage electrical equipment. In May 2021, the work of the first preliminary EU assessment mission was completed ("*Promyslovyi bezviz*", 2021). As a result, the first official report was presented, but the agreement is still far from being adopted. That Agreements on Conformity Assessment and Acceptance of Industrial Goods (ACAA) may improve the situation, but will not lead to profound changes in Ukrainian industrial exports to the EU. The low level of innovations in Ukraine, low productivity, lack of sectoral support, the inability to carry out a rapid and large-scale modernisation of enterprises are objective factors hindering entry into European markets.

As already mentioned, Ukrainian agricultural products, mostly unprocessed, comprise a large share of exports to the EU. If to analyse the opportunities for agricultural exports to the EU, at first glance, it seems that this is very profitable for Ukraine. But along with the possibility of exporting goods to the EU, Ukraine has opened its market to European agricultural products, which leads to higher imports and, consequently, to the destruction of its own manufacturers.

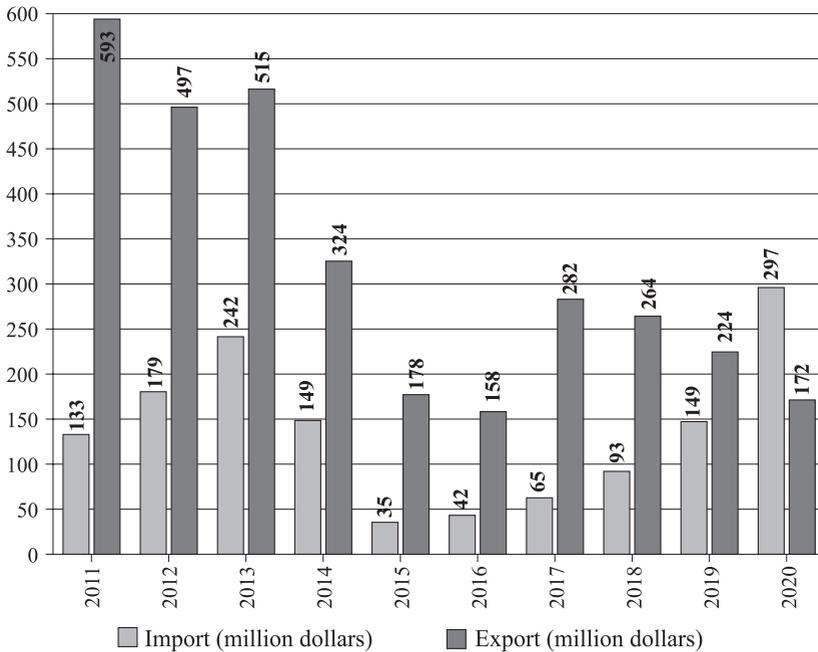
The author will try to explain this with the example of dairy production. In the 1990s, Ukraine ranked 6th in world milk production. In 1994, Ukraine produced 24.5 million tons of milk, in 2013 – 11.5 million tons, and in 2020 – 9.2 million tons of milk. Officially, Ukraine is in 18th place globally (*Ukraine: Dairy Sector*, 2020). However, according to Vadym Chahorovskyi, the head of the Union of dairy enterprises of Ukraine, this data is very high. Ukraine produces only 6.5 million tons of milk and is the 32nd place in the world ranking (Chaharovskiyi, 2020).

**Chart 6. Milk production in Ukraine, thousand tons**



**Source:** Ishchenko and Honchar, 2021, p. 93.

The last record exports of milk and dairy products was listed in 2011 – \$593 million, with imports of \$133 million. In 2014–2019, there was a gradual decrease in revenues from dairy exports from \$324 million to \$224 million. In 2016, there was an anti-record of exports of dairy products and amounted to \$158, with imports of \$42 million. In 2020, the exports of milk and dairy products amounted to \$172 million, and imports exceeded this amount by almost 73% and amounted to \$297 million (a negative balance of \$125 million) (Herasyenko, 2021). In 2020, Ukraine became a net importer of dairy products for the first time in its history. Imports exceeded exports by two times. Approximately 75% of all dairy product imports come to Ukraine from EU countries (Diadiuk, 2021).

**Chart 7. Import/export of dairy products in Ukraine in 2011–2020**

**Source:** Herasymenko, 2021.

If to consider this data in the context of Ukraine's trade with the EU, the import of dairy products to Ukraine from the EU remains much higher than exports. In 2019, imports of dairy products from the EU reached \$82.3 million, which is 4.3 times higher than exports (*Stratehichni oriientyry*, 2021, p. 26). It is because most Ukrainian dairy companies do not have a permit to export to the EU. By 2021, only 25 of the 192 companies received permits to export dairy products to the EU (*Ahrarna zona*, 2020). Only extra-class milk meets European quality and safety standards, and products made from such milk can enter the European market.

Also, among the reasons for decreasing exports and increasing imports of dairy products are the following:

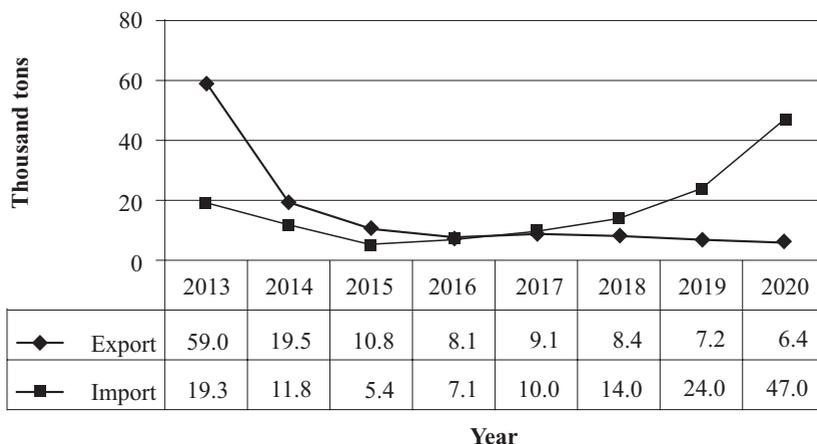
1. Loss of former markets for Ukrainian dairy products after signing the Association Agreement with the EU, which the state did not manage to replace by the EU market. It led to a decrease in dairy exports by 3 times.

2. Cheap imports from the EU to Ukraine. Today, prices for dairy products imported from the EU are lower than for domestic ones. The reason is the subsidies received by European exporters from the Commonwealth budget. Ukrainian milk producers have become uncompetitive due to many factors, particularly the lack of state support. For comparison, in the EU, the agricultural sector receives much more state support than in Ukraine. Over the last 6 years, milk producers in Poland have received 29 billion euros of financial support from the EU, and producers in Germany have received 64 billion euros from the EU (Volkonskaya, 2020). Thus, Ukrainian producers of raw milk and dairy products are in unequal conditions with similar producers in Poland, Germany, Italy and other EU countries (Omelchenko, 2021, pp. 85–86). It leads to a rapid reduction in livestock in Ukraine and the closure of dairy plants.
3. The lack of any protective measures for domestic dairy producers at the state level. Consequently, Ukrainian dairy products today are considered uncompetitive because their cost is too high. Most dairy plants in Ukraine operate at a loss or are closed down.

Thus, Ukraine is in unequal conditions with the EU. The Association Agreement in future will lead (or has already led) to the destruction of the dairy industry in Ukraine according to the experts Mykhailo Sokolov, Deputy Chairman of the All-Ukrainian Agrarian Council, and Vadym Chahorovskyi, the head of the Union of dairy enterprises of Ukraine (Sokolov, 2021; Chaharovskiy, 2021). Ukraine is financing the EU's dairy industry, but destroying its own because it does not take measures to protect and create a competitive domestic dairy sector which generates the most taxes compared to other sectors of industrial agriculture. As a result, Ukraine from a dairy exporter has turned into a net importer.

The situation in the dairy industry has worsened so much that in early 2021, 14 domestic dairy companies in Ukraine filed a grievance to the Ministry of Economic Development, Trade and Agriculture on conducting a special investigation into imports of certain dairy products (*Import molochnykh produktiv*, 2021).

The best illustration of the actual loss of the Ukrainian dairy industry is a comparison of cheese exports and imports (Chart 8). The main countries importing cheese to Ukraine are the EU (Poland, Germany, France, the Netherlands), but there are no EU countries that buy Ukrainian cheese. In this area the Agreement operates unilaterally as only the European Union gets benefits.

**Chart 8. Export and import of cheese in Ukraine (x 1,000 tons)**

Source: State Fiscal Service of Ukraine, <http://sfs.gov.ua/ms/fl1>.

Table 6

**Export and import of cheese in Ukraine (main 10 suppliers/purchasers)**

EXPORT UKRAINE: Main 10 purchasers of Cheese (Tons)								
Country	Annual					Jan–Oct		
	2016	2017	2018	2019	2020	2020	2021	± % su 2020*
Kazakhstan	3,683	3,735	2,970	2,542	2,747	1,996	2,166	+8.50%
Moldova	2,598	2,590	2,771	2,623	2,194	1,671	2,189	+31.04%
Georgia	175	248	246	284	312	252	302	+20.18%
Azerbaijan	352	245	228	238	256	209	254	+21.96%
Egypt	690	989	943	598	253	253	0	-99.99%
United States	76	77	108	123	122	105	120	+14.01%
United Arab Emirates	96	151	137	121	113	98	73	-25.11%
Israel	90	67	46	58	100	81	75	-7.61%
Iraq	–	10	–	26	65	21	158	+655.00%
Kyrgyzstan	–	77	137	188	59	39	29	-25.64%

IMPORT UKRAINE: Main 10 purchasers of Cheese (Tons)								
Country	Annual					Jan–Oct		
	2016	2017	2018	2019	2020	2020	2021	± % su 2020*
1	2	3	4	5	6	7	8	9
Poland	2,707	3,952	5,015	9,823	22,479	18,814	18,112	-3.73%
Germany	1,866	2,588	3,594	5,665	9,225	7,496	9,786	+30.55%

1	2	3	4	5	6	7	8	9
France	735	1,096	1,894	2,832	3,874	3,089	3,029	-1.92%
Netherlands	555	769	1,052	1,052	3,557	2,757	3,767	+36.63%
Italy	328	385	544	544	1,961	1,587	1,973	+24.33%
Lithuania	105	181	241	241	1,012	723	1,321	+82.77%
Denmark	102	161	344	344	803	649	814	+25.33%
Latvia	39	86	97	97	764	642	387	-39.67%
Iceland	-	-	-	-	657	393	1,081	+175.00%
Czech Republic	176	205	217	197	456	310	870	+181.00%

Source: Ukraine: Dairy Sector, 2020, [https://www.clal.it/en/?section=stat\\_ucraina](https://www.clal.it/en/?section=stat_ucraina).

Thus, Ukraine has lost its traditional markets for agricultural exports to the CIS countries, and the Association Agreement with the EU has not opened a full-fledged market for high value-added Ukrainian agricultural products yet.

### Problems and Prospects of Introduction of European Standards in Ukraine

The Association Agreement with the EU spells out the need to bring the technical regulations for Ukrainian goods to European standards. Within ten years, the country is obliged to abandon the old methods of production that have been used since the Soviet Union times, as well as new methods which are not corresponding to European standards. Under the article 56 of the EU-Ukraine association: “Ukraine shall take the necessary measures in order to gradually achieve conformity with EU technical regulations and EU standardisation, metrology, accreditation, conformity assessment procedures and the market surveillance system, and undertakes to follow the principles and practices laid down in relevant EU Decisions and Regulations” (*Association Agreement*, 2014, p. 25). The country must: firstly, adopt technical regulations that implement EU directives and regulations for the relevant types of products into its legislation; secondly, to accept EU standards as national ones under these directives and regulations; thirdly, to prepare the infrastructure of testing laboratories and certification bodies to work under European requirements. “Ukraine shall progressively transpose the corpus of European standards (EN) as national standards, including the harmonised European standards, the voluntary use of which shall be presumed to conform with

legislation listed in Annex III to this Agreement. Simultaneously with such transposition, Ukraine shall withdraw conflicting national standards, including its application of interstate standards (GOST/TOCT), developed before 1992. In addition, Ukraine shall progressively fulfil the other conditions for membership, in line with the requirements applicable to full members of the European Standardisation Organisations” (*Association Agreement*, 2014, p. 25).

When Ukraine completes these steps, it will sign as a separate protocol to the Association Agreement the so-called Agreement on Conformity Assessment and Acceptance of Industrial Products (hereinafter referred to as the “ACAA”). The effect of the ACAA Agreement will gradually, as Ukraine fulfils the mentioned actions, will be extended to various types of products. The commencement of the ACAA Agreement in respect of the relevant type of product will mean free access of these Ukrainian products to the markets of the EU Member States.

Conformity with European standards is a necessary condition for the access of Ukrainian products to the internal markets of the EU. The process of transition to new standards for enterprises requires significant financial investments. It is necessary to buy only equipment that meets European standards, but this, as a rule, is expensive imported equipment. And Ukraine also needs to hire European companies to install this equipment and train staff. Thus, the transition to the new production rules requires a substantial investment in the modernisation process. Only large manufacturing companies will be able to carry out this task. Their capacities make it possible to modernise production. But small producers, in particular, food producers who must meet various technical standards, will suffer much more if they manage to withstand competition in general. The introduction of EU technical requirements may cause difficulties among small producers who will not be able to find investments for renovations. In addition, the introduction of European standards has affected enterprises that, during the years of independence, could not find their niche in Western markets and focused on working with the CIS countries.

The European market is mature and very diversified. For successful work, Ukrainian manufacturers need to find their niche and work in conditions of fierce competition. And Ukraine’s signing of the Free Trade Agreement with the EU does not mean that Europeans are eager to buy Ukrainian goods. Ukrainian consumers may suffer from the introduction of EU standards. Goods that do not meet European standards will be forced out of the market. As a rule, these are cheap goods

consumed by the poor. Manufacturers that have implemented European standards had to rise prices to compensate for the cost of improving product quality.

The author can agree with A. Pylin's idea that further modernisation of the Ukrainian economy will depend on the readiness of the EU to invest in our economy and integrate Ukrainian production into European technological chains. At the same time, the European Union is hardly interested in creating a modern industrial and innovative complex in Ukraine, which would turn it into a competitor for leading European transnational corporations (Pylin, 2020, p. 53).

### Conclusions

When the EU-Ukraine Association Agreement came into force, the European Union became the main trading partner of Ukraine. However, the volume of trade with the EU remained almost at the same level as before the signing of the agreement (2013 – 36.8 billion euros, 2020 – 39.7 billion euros). Thus, the Free Trade Area Agreement has not led to a significant increase in trade between the EU and Ukraine. And the negative balance in trade with the EU indicates that Ukraine has not received additional opportunities to import its products to the EU.

The association agreement with the EU has led to the loss of the old traditional Ukraine markets of the CIS countries, and the market of the European Union has not compensated for them. Ukraine has not also found new markets in other countries. Exports of goods from Ukraine to the CIS decreased from \$21.7 billion in 2013 to \$5.9 billion in 2020 (by 3.7 times and made up 27% of 2013). Ukraine's export losses in trade with the CIS in 2014–2020 amounted to about \$92.7 billion (estimated for *Dovidka* "Zovnishnia torhivlia Ukrainy, 2020). It is more than half of Ukraine's GDP in 2020.

The structure of exports from Ukraine to the EU is mostly raw materials. The share of raw materials, agricultural products and low value-added goods exported from Ukraine to the EU is 86.7%. The characteristic feature in recent years is the deindustrialisation of exports and the consolidation of its agricultural specialisation. The domestic economy establishes itself in international markets as a key agricultural player. In 2014–2020, food products and agricultural raw materials were finally established as the basis of Ukrainian exports (Redko, Tkachenko, 2021, p. 40).

Before and after the Association Agreement, machinery and transport equipment, and high value-added products made up only 13% of Ukrainian exports to the EU (in 2020, it was 13.3% of total exports to the EU). Until 2014, the CIS countries were the market for high value-added Ukrainian goods, including machinery and transport equipment. Ukraine exported 30% of such goods there. Today, the volume of exports of these goods to the CIS countries has decreased by 2 times, and the European Union has not become an importer. Having lost the former markets for high-tech products, Ukraine has lost much of its industry. The decline in industry is more than 30% over the years of the Association Agreement. Having lost part of its industry and exports of high-tech products, Ukraine is becoming a raw material appendage of Europe.

Along with expanded opportunities to export its goods to the EU, Ukraine has opened its borders to European agricultural products. It has led to an increase in imports from the EU and, as a result, the destruction of their own producers. The processing industries of industrial agriculture, which cannot compete with cheap imports from the EU, are being destroyed. The main reasons for the weak dynamics of Ukraine's exports to the European Union:

- very small quotas allocated for duty-free imports of the most competitive goods;
- financial unwillingness of enterprises-exporters of industrial products to modernise production in order to meet European technical standards;
- strong competition with the EU Member States in the internal market of the European Union in terms of price/quality of products.

In current economic conditions in Ukraine, characterised by falling GDP, declining industrial production, and increasing external debt, the Association Agreement with the EU only aggravates the economic situation. Ukraine's total trade turnover decreased due to the reorientation of foreign trade to the European Union. In 2020 this decrease was 27% compared to 2013, which is significant for Ukraine's economy (Bortnik, Krasovskaya, Antonenko, 2021, p. 41).

Ukraine lost a significant part of its foreign trade partners due to the signing of the Association Agreement and suffered significant financial losses. Now our foreign trade is completely dependent on the EU countries where in the long-term, Ukraine can supply only raw materials. According to EU standards in Ukraine, the production of high-tech products will require significant investments and international partners' desire to

create enterprises in Ukraine that will compete with European ones. But the state cannot count on this in modern conditions. In Ukraine, there are no specialists left ready to work for these enterprises. In recent years, there has been a mass migration of the most educated and able-bodied part of the Ukrainian population to other countries, including the EU. It is due to deindustrialisation, low incomes and a high unemployment rate. According to various estimates, about 10 million citizens of Ukraine are labour migrants who were forced to leave the country searching for work. The economy agrarianisation observed in recent years will contribute to further emigration of the able-bodied. However, as the base of economic growth expands, the shortage of skilled labour force can become a serious obstacle to the country's development (Pylin, 2020, p. 47).

The main challenges for Ukraine in connection with the signing of the Association Agreement are: 1) losses for certain industries of Ukraine due to their low level of competitiveness; 2) the threat of ousting the national producer from some sectors of the domestic market; 3) on the one hand, reduction of budget revenues due to the reduction of customs duties rates, and the closure of domestic production, on the other hand; 4) increasing the unemployment rate by reducing the production by economic entities and increasing the motivation of the labour force to migrate to other countries.

Ukraine has signed an association agreement that is unfavourable for its economy without receiving a guarantee of future membership in the European Union. The EU has testified that the Agreement based on common values does not confer on Ukraine the status of a candidate country for accession to the Union, nor does it constitute a commitment to confer such status to Ukraine in the future. In addition, we should pay attention to some conceptual aspects related to the implementation of the Agreement. Firstly, the crisis in the world economy is likely to change the regulatory environment in the world and the EU in particular. Thus, excessive binding to European legislation cannot be useful for Ukraine. Secondly, as Ukraine is obliged to carry out significant reforms in implementing the Agreement, the EU must provide financial and technical support in carrying out these reforms, which is not mentioned in the document.

The Association Agreement protects only the interests of the EU and gives almost nothing to such a poor and economically unstable country as Ukraine. Ukraine is overwhelmed by mass imports of European products, which effectively destroys the local producer who provided Ukrainians with domestic goods. Today it has become cheaper to import products

from the EU than to produce them in Ukraine. The implementation of the EU-Ukraine Association Agreement has worsened Ukraine's financial and economic situation, pushing it away from the possibility of becoming a member of the EU in the future, as it makes it impossible to meet the economic criteria for membership. Ukraine has become a source of raw materials for the EU, a market for European products, and a source of labour migrants. Instead of the increase in investment expected by the Ukrainian authorities, the mass closure of Ukrainian enterprises continues, customs duties on almost all goods are reduced and imports of goods from the EU increase, which ultimately undermines the country's already weak economy.

Based on the analysis, the author recommends the following. Ukraine needs to initiate a review of the Association Agreement with the EU, especially in terms of the free trade area with the EU (Title 4) as not corresponding to the economic interests of the state. A free trade area between the economically developed European Union and poor, economically undeveloped Ukraine cannot be beneficial to both parties. A weaker Ukraine is undeniably the loser in this agreement. The foreign economic policy of Ukraine should be aimed at achieving the priorities of import substitution, that is, a gradual reduction in the volume of non-products and non-critical imports. It applies to certain types of food, in particular agricultural products, light industry, and electrical devices. In parallel, to increase domestic producers' competitiveness, it is necessary to legislate tax incentives and preferences to enhance innovative and technological modernisation.

The primary task of the authorities is to restore the previous volumes of trade in traditional markets or find new markets for their products, which will allow Ukraine to reach the level of economic development as in 2013. The institutional basis of Ukraine's foreign economic policy should be pragmatism and the protection of national interests. It is vitally important for the country to return to a multi-vector policy, good neighbourliness and the priority of economic interests for positive socio-economic development. A multi-vector approach in foreign economic relations will allow Ukraine to restore destroyed cooperation with the countries of the Eurasian Economic Union (EAEU) and the Commonwealth of Independent States (CIS) and establish trade and economic cooperation with states equal to it in industrial, technical and technological development, and develop trade relations with regional economic associations such as the SCO (Shanghai Cooperation Organisation), BRICS, Asia-Pa-

cific Economic Cooperation (APEC), ASEAN, Regional Comprehensive Economic Partnership (RCEP).

It is extremely important to develop cooperation in the format “European Union – Ukraine – Eurasian Economic Union”. However, it will be very difficult to develop a mechanism for combining (harmonising) the two integrations, as the Ukrainian authorities have neither political will for this nor economic development strategy for the country.

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## Gospodarcze konsekwencje realizacji Umowy Stowarzyszeniowej UE-Ukraina

### Streszczenie

Artykuł koncentruje się na cechach Umowy Stowarzyszeniowej UE-Ukraina i gospodarczych konsekwencjach jej wdrożenia dla Ukrainy. W ramach badania określono jej wpływ na handel zagraniczny, komponent eksportowo-importowy handlu z UE, a także problemy i perspektywy wprowadzenia norm europejskich na Ukrainie. W opracowaniu postawiono hipotezę, że Umowa Stowarzyszeniowa UE-Ukraina pogorszyła i tak już słabą sytuację gospodarczą na Ukrainie i doprowadziła do reorientacji handlu zagranicznego Ukrainy przy jednoczesnej utracie rynków, na które Ukraina eksportowała produkty o wysokiej wartości dodanej i zastąpieniu ich rynkami UE, na których eksportowane są tylko surowce. Doprowadziło to również do utraty ponad jednej czwartej własnej produkcji przemysłowej i stopniowego przekształcania Ukrainy w kraj surowcowy stanowiący przybudówkę Europy.

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