Globalization and Regionalization

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SOME ASPECTS OF FOREIGN TRADE OF UKRAINE IN THE CONTEXT OF EURO-INTEGRATION

Abstract

The article analyzes the trade between Ukraine and the EU-27 based on trade interrelation and trade parity indicators. Proceeding from the research results, the author offers a classification of the EU countries based on their trade pattern with Ukraine, which in its turn laid the foundation for the recommendations aimed at further development of Euro-integration processes in the sphere of foreign trade. The author concludes that the expansion of foreign trade relations will foster the Euro-integration of Ukraine. However, trade orientation should be focused primarily on the countries interested in the mutual trade with Ukraine.

Key words:

Euro-integration, export, import, trade interrelations, trade symmetry.

JEL: F15, F19.

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Introduction

After Ukraine had won independence, it has encountered the task of clearly defining a Europe-oriented foreign political strategy. The aspiration of Ukraine to Euro-integration is preconditioned by, *firstly*, the understanding of integration as a factor benefiting the country's development, economic growth and stability, and *secondly*, the recognition of the European Union as the most advanced and perspective integration grouping in the modern world. For Ukraine, the European integration means the movement towards the standards of socially-oriented market economy; therefore, the integration of Ukraine into the EU is set as the strategic goal of its state policy [1].

Certainly, quite a number of studies were dedicated to the problems of Ukraine's Euro-integration regarding both political and legal, and economic aspects of the Ukraine-EU relations. Among the latest Euro-integration studies in the area of economics worthy of note are the works by the group of authors from the Ukrainian Centre of Social and Economic Studies (CASE) [2, 3] D. Popko and O. Tkachuk [4]; the studies of V. Astrov, Z. Lukas and Ya. Poshla [5], H. Mernikov [6], Ye. Savelyev [7], V. Uhr [9], W. Trillenberg [9], and many others. However, the mentioned studies consider the economic relations between Ukraine and the EU as those between the homogenous objects, whereas in reality the EU – despite the deep economic integration between its member states – continues to be the community of countries with different economic development, different traditional forms of foreign economic relations, etc.

In our opinion, it is worth to analyze the relations between Ukraine and the EU not as those between Ukraine on the one side and a single whole on the other, but as those between Ukraine on the one side and each individual member country on the other. Surely, the research in this direction has also been taking place – suffice it to mention the studies within the project «Impact of the EU Enlargement on the Relations between Ukraine and its Central European Neighbours» under the supervision of I. Solonenko [10], as well as the works of A. Flissak [11], Ya. Andrea [12], A. Skovronska-Luchynska [13], V. Kovalenko [14], N. Veretennyk [15], V. Sobol [16], Ye. Konopatskyy [17], and many others. Nevertheless, these works cover the peculiarities of foreign economic relations between Ukraine and one or several EU countries. A systemic analysis of the economic relations between Ukraine and the European Union constituting both the single whole and the community of independent countries is absent in the current economic literature.

Therefore, we find it feasible to study the relations between Ukraine and each EU country individually. **The subject of the research** is the trade relations between Ukraine and the EU countries because at the initial stages of integration (free trade area and customs union) the trade, in particular its intra-integration component, plays a critical role.

T**he objective** of this article is to specify the peculiarities of trade relations between Ukraine and the EU countries and to define the priority directions of foreign trade development in Ukraine in the context of Euro-integration processes.

To achieve this objective, we shall perform **the following tasks**: the selection of indicators and methods of their interpretation for determining the priority trade flows; the analysis of bilateral trade relations between Ukraine and the EU countries in terms of their benefit for Ukraine; the proposition of recommendations concerning guiding lines for foreign trade in the European space based on the available trade relations and the suggestion of proposals for perspective development of trade between Ukraine and the EU countries with respect to progress in the sphere of Euro-integration.

The Criteria of Interrelation
and Symmetry of Trade Relations

The success of the initial stages of an integration process depends on the nature of trade relations, their interrelation and equivalence. It is these factors that were proposed for determining the probable problems which emerge in result of establishing integration groups. The methods of calculating the interrelation and symmetry indicators of foreign trade relations between two countries, as well as the criteria for interpreting the results were generally developed by A. S. Vanyushkin [18: 98]. This method and the improved and grouped criteria of trade interrelation and symmetry will be applied here for the analysis of foreign trade between Ukraine and the countries of the European Union.

The interrelation coefficient is calculated by formula (1):

$$K_m = \frac{X_{mn}}{X_m} \bigg/ \frac{M_{nm}}{M_m}, \qquad (1)$$

where K_m – the coefficient of interrelation between country m and country n;

X_{mn} – exports from country m to country n;

X_m – total volume of exports from country m;

M_{nm} – imports from country n to country m;

M_m – total volume of imports to country m.

When the coefficient of trade interrelation is greater than or equal to unity, it means that there exists an interrelation between countries m and n. That is, if these countries integrate, country m will not have to re-orient its foreign trade towards its new trade partner. When the trade interrelation coefficient is less than unity, the three following cases are possible:

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1) The share of exports from country m to country n by far exceeds its average volume of exports to its trading partner countries. In this case, country m is very dependent on the importer n, whereas the reverse relationship is absent because of the considerable market size of country n.

2) The share of country n in the total volume of exports from country m is much smaller than the share of country m in the volume of imports to country n. In this case, country n is largely dependent on exports from country m, but the diversification of the latter gives country m an opportunity to be independent from trade with country n.

3) Exports from country m to country n is by far smaller than the average volume of its exports to its partner countries, whereas imports from country m to country n are much smaller than the average volume of imports to country n from its trading partner countries. It means these two countries are mutually independent in commodity trade.

In a formalized format this will look the following way:

$$X_{mn} >> \frac{X_m}{N_{xm}}, \tag{2}$$

$$\frac{X_{mn}}{X_m} << \frac{M_{nm}}{M_n}, \tag{3}$$

$$\begin{cases} X_{mn} < \dfrac{X_m}{N_{xm}} \\ M_{nm} < \dfrac{M_n}{N_{mn}} \end{cases}, \tag{4}$$

where X_{mn} – exports from country m to country n;

X_m – total volume of exports of country m;

N_{xm} – number of countries, to which country m exports its goods;

M_{nm} – imports from country m to country n;

M_n – total volume of imports of country n;

N_{mn} – number of countries, from which country n imports goods.

To analyze trade relations between two countries in more detail, it is necessary to calculate the interrelation coefficients for each of them, i. e. to evaluate the reciprocal trade flows. Identical interrelation coefficients signify that the trade relations between the given two countries are equal; otherwise, trade asymmetry exists between countries m and n. The greater the coefficient, the higher the resistance of a certain trade flow to market changes; whereas the reverse flow is less resistant, which generates trade imbalance between the countries.

In case of trade asymmetry, the following ratios of the coefficients of trade interrelation between country m and country n (k_{mn}) and, inversely, between country n and country m (k_{nm}) are possible:

1) $k_{mn} > k_{nm} > 1$;

2) $k_{nm} > k_{mn} > 1$;

3) $k_{mn} < k_{nm} < 1$;

4) $k_{nm} < k_{mn} < 1$;

5) $k_{mn} > 1, k_{nm} < 1$;

6) $k_{mn} < 1, k_{nm} > 1$.

Scenarios 1 and 2 in the case of trade relations asymmetry are the most optimistic: even though the propensity of countries to mutual trade is different, they exhibit tight interrelation, which is greater for the country with a higher coefficient value.

Scenarios 3 and 4 – on the contrary – are the worst for country m, especially under fulfilment of inequality (2) in the direction $m \rightarrow n$ and inequality (3) in the direction $n \rightarrow m$. Such relations are characterized by the dependence of country m on country n in terms of both exports and imports.

In scenario (5) country m depends on trade with country n, whereas the reverse relationship depends on which inequality of (2)–(4) is fulfilled for country n. In scenario (6), country m depends on imports from country n, whereas country n, due to its large market capacity, does not depend on imports from country m, especially when inequality (2) is fulfilled for the latter.

Interrelation of Trade between Ukraine and the Countries of EU-27

The described method was applied to calculate the coefficients of trade interrelation between Ukraine and the countries of EU-27 for both direct and reverse trade flows. For calculations, we used the statistical data on two-way commodity flows published on the Economic Web Institute's homepage [19].

The results are presented in Table 1. k_{eu} designates the coefficient of trade interrelation between Ukraine and individual countries of the European Union; k_{eu} is the coefficient of trade interrelation in reverse direction, i. e. trade interrelation between the EU countries and Ukraine. The statistics for 2004 was used for calculation. On that year 10 new members joined the EU**,** while 2 countries, namely Bulgaria and Romania, entered the EU only in 2007. Therefore, the table shows the EU countries grouped by the time of their EU accession: EU-15, EU-25 and EU-27. Column 5 in Table 1 demonstrates the ratio of coefficient k_{ue} to

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coefficient k_{eu} adjusted for variance calculated for every pair of coefficient values as a mean square deviation.

It is feasible to analyze the results starting with trade flows: Ukraine → EU countries; and later consider the bilateral trade relations: Ukraine ↔ EU countries.

Table 1

Mutual trade interrelation between Ukraine and EU-27

Block			Countries	k_{ue}	k_{eu}	Interrelation symbol k_{ue} and k_{eu}
EU-27	EU-25	EU-15	Austria	1.0804	1.1636	=
			Belgium	0.7616	1.3315	<
			Great Britain	0.4686	2.4284	<
			Greece	2.8335	0.8103	>
			Denmark	0.4805	2.0375	<
			Ireland	0.1848	3.1984	<
			Spain	2.1333	0.5953	>
			Italy	1.9800	0.5035	>
			Luxembourg	0.9609	1.1269	=
			Netherlands	0.9805	0.9950	=
			Germany	0.6754	1.3218	<
			Portugal	3.2432	0.4447	>
			Finland	0.1301	5.5655	<
			France	0.2149	4.9100	<
			Sweden	0.0320	23.1238	<
			Estonia	0.9609	0.9782	=
			Cyprus	1.5242	1.4969	=
			Latvia	0.8517	1.0496	=
			Lithuania	0.5908	2.4014	<
			Malta	0.2402	5.9069	<
			Poland	1.4583	1.0885	=
			Slovakia	1.4647	0.7290	>
			Slovenia	0.3844	2.7524	<
			Hungary	1.3686	0.7664	>
			Czech	1.3913	0.6907	>
			Bulgaria	6.1340	0.2087	>
			Romania	3.5635	0.2863	>

Source: author's calculations based on data of State Statistics Committee of Ukraine and Economic Web Institute.

Thus, according to the data presented in Column 2 of Table 1, Ukraine is tightly interrelated in trade with such countries of the EU-27 as Austria, Hungary, Czech Republic, Poland, Slovakia, Cyprus, Italy, Spain, Greece, Portugal, Romania, and Bulgaria (the countries are listed in ascending order). Even a short glimpse at this list would suffice to note that out of the listed twelve countries, six are the countries in Central and South-Eastern Europe that joined the EU only in 2004 or even 2007. Moreover, these countries were part of the former socialist camp, in which trade relations between countries were rather developed, the echo of which can still be observed. Out of the other six countries, Cyprus is also a new member in the European Union (from 2004), whereas Spain, Greece and Portugal are among the least developed countries in the EU-15. Only Austria and Italy belong to oldest and most advanced members of the European Union.

The coefficient of trade interrelation with the other fifteen countries is less than unity; therefore, to have a more detailed analysis of trade between Ukraine and these countries, we need to check the validity of inequalities (2)–(4) for every pair of countries. The results of this test are shown in Table 2, where «+» means that the inequality is valid for the trade between Ukraine and a certain country, while «–» shows that the inequality is not valid.

Table 2

Analysis of trade between Ukraine and the EU countries for which $k_{eu} < 1$

Country	$X_{ue} \gg \dfrac{X_u}{N_{xu}}$	$\dfrac{X_{ue}}{X_u} \ll \dfrac{M_{eu}}{M_e}$	$X_{ue} < \dfrac{X_u}{N_{xu}}, \ M_{eu} < \dfrac{M_e}{N_{me}}$
Belgium	–	–	+
Great Britain	–	–	+
Denmark	–	–	+
Ireland	–	–	+
Luxembourg	–	+	+
Netherlands	+	–	–
Germany	+	–	–
Finland	–	–	+
France	–	–	+
Sweden	–	–	+
Estonia	–	+	–
Latvia	–	+	–
Lithuania	–	+	–
Malta	–	+	+
Slovenia	–	+	+

Source: author's calculations based on data of State Statistics Committee of Ukraine and Economic Web Institute.

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Thus, inequality (2) is valid only for trade relations between Ukraine and the Netherlands and Germany, i. e. Ukraine depends on exports from these countries, but they do not exhibit dependence on Ukrainian imports. Exports to the other countries are of little significance for the Ukrainian economy, since the share of these countries in the structure of Ukrainian exports is minor. At the same time, the Netherlands and Germany are not dependent on Ukrainian imports because the latter accounts for a rather small share of their markets.

Inequality (3) is valid for trade between Ukraine and Estonia, Latvia, Lithuania, Slovenia, Luxembourg, and Malta. No doubts arise concerning the first three ones – the Baltic countries, as the former USSR republics, have stable economic relations with Ukraine. However, the geographical and economic scopes of these countries and Ukraine differ so much that the Baltic states are not the key target for Ukrainian exports, since the latter are diversified enough not to depend on their market situation. The same explanation could be true for Slovenia, the former Yugoslavian republic, though the dependence here is very weak (the ratio of Estonian trade share in Ukrainian exports to Ukraine's trade share in Estonian imports equals 3.2, for Latvia this export/import ratio equals 5.1, for Lithuania – 2.8, whereas for Slovenia it is only 1.5). The dependence of Malta and Luxembourg on Ukrainian exports is not so apparent, since those two countries do not have historically established trade relations with Ukraine, whereas the revealed ratio reflects mainly the differences in the size of these small countries and Ukraine: Ukrainian imports to Malta account for 0.03% in its total imports, and the share of trade with Malta in the structure of Ukrainian exports is less than 0.01%; in the trade between Ukraine and Luxembourg these figures make 0.11% and 0.06% respectively. Consequently, we can assert that the trade between Ukraine and the «small economies» of the European Union is not critical for either party.

The validity test carried out for inequality (4) in application to trade relations between Ukraine and individual EU-27 countries shows zero dependence of either direct or reverse trade between Ukraine and the majority of countries in the given group. Only the Netherlands and Germany are exceptions (the dependence of Ukrainian exports on the market conditions in these countries was substantiated above), as are the Baltic countries: Estonia, Latvia, Lithuania (the dependence of these countries on Ukrainian exports was shown earlier as well). In the other cases, Ukraine can be regarded as independent on trade with the named countries. The group of the countries found to be independent includes even those countries which revealed weak trade dependence according to criterion (3). Proceeding from the abovesaid, the assumption about zero trade interrelation between Ukraine and Malta, Luxembourg and Slovenia could be regarded as valid, while some signs of dependence could be explained by the differences in the sizes of economies, and their foreign trade in particular.

Symmetry and Asymmetry of Bilateral Trade between Ukraine and the EU-27

We will further consider the bilateral trade flows between Ukraine and the countries of EU-27, in particular we will reveal for which countries the trade is symmetrical and equitable and for which it is not. According to Table 1, symmetrical trade relations can be observed between Ukraine and Austria, Luxembourg, the Netherlands, Estonia, Cyprus, Latvia, and Poland. The trade between Ukraine and these countries is described as balanced and equitable. Nevertheless, worth noting is the fact that the trade with most of these countries is insignificant. Specifically, according to the Ukrainian State Statistics Committee [20], the shares of these countries in the Ukrainian foreign trade turnover in 2004 were the following: Austria – 0.96%, Estonia – 0.57%, Latvia – 0.69%, Luxembourg – 0.03%, the Netherlands – 1.42%, Poland – 3.16%, and Cyprus – 0.27%. Thus, only the trade with Poland, the Netherlands, and to a lesser extent Austria is rather significant for Ukraine. Therefore, the revealed trade parity between Ukraine and the named EU countries is the major positive outcome of the analysis of trade relations symmetry for Ukraine $\leftrightarrow$ the EU-27.

The relations between Ukraine and the other countries of the EU-27 are asymmetric, that is why it is needed to define the nature of this asymmetry. For this purpose Table 3 demonstrates the countries exhibiting asymmetric trade grouped by the asymmetry scenario. The table lists only those scenarios that are typical for the relations between Ukraine and at least one country. Those scenarios which do not describe trade relations between Ukraine and the EU-27 are omitted (k_{eu} – coefficient of trade interrelation between Ukraine $\leftarrow$ the EU country, k_{eu} – coefficient of trade interrelation between Ukraine $\rightarrow$ the EU-27 country). Thus, the asymmetric trade relations between Ukraine and the countries of EU-27 unfold only under the following two scenarios: $k_{ue} > 1$, $k_{eu} < 1$ and $k_{ue} < 1$, $k_{eu} > 1$.

Таблиця 3

Сценарії асиметрії у торгівлі між Україною та країнами ЄС-27

Scenario	$k_{ue} > 1$, $k_{eu} < 1$	$k_{ue} < 1$, $k_{eu} > 1$
The countries, whose trade with Ukraine complies with the given scenario	Bulgaria, Greece, Spain, Italy, Portugal, Romania, Slovakia, Hungary, Czech Republic	Belgium, Great Britain, Denmark, Ireland, Lithuania, Malta, Germany, Slovenia, Finland, France, Sweden

Source: author's calculations based on data of State Statistics Committee of Ukraine and Economic Web Institute.

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The trade relations between Ukraine and the countries listed in Column 1 of Table 3 are characterized by the dependence of Ukraine on trade with these countries. The peculiarities of reverse relation can be revealed by testing the inequalities (2)–(4) with application to trade of the EU countries listed in this column.

The results of this analysis presented in Table 4 show that Bulgaria and Slovakia depend considerably on Ukrainian imports. Regarding Spain, Italy, Portugal, Hungary, and Czech Republic, the trade between these countries and Ukraine is more important for the latter than for the named European countries, since their trade is more diversified. In fact, according to Economic Web Institute [19], the number of trading partner countries the volume of trade with whom exceeds \$1mn (other trade relations could be ignored, since they are minor or even reflect one-time contacts) is 161 for Spain, 166 – for Italy, 143 – for Portugal, 132 – for Hungary, 138 – for Czech Republic, and only 122 for Ukraine.

The inequalities **(4)** are valid for the trade between Ukraine and Greece, Spain and Portugal, i. e. the bilateral trade is insignificant for either party. Nevertheless, the trade between Ukraine and Spain and Portugal fulfils inequality (3) as well. Thus, taking into account that the coefficient k_{ue} for both countries is greater than unity, exports to these countries can be deemed important for Ukraine, while neither imports from those countries to Ukraine nor Ukrainian imports to Greece or Portugal are of much significance.

Table 4

**The peculiarities of trade asymmetry between Ukraine
and the EU-27 countries, for which $k_{ue} > 1$ and $k_{eu} < 1$**

Country	$X_{eu} \gg \dfrac{X_e}{N_{xe}}$	$\dfrac{X_{eu}}{X_e} \ll \dfrac{M_{ue}}{M_u}$	$X_{eu} < \dfrac{X_e}{N_{xe}}, \ M_{ue} < \dfrac{M_u}{N_{mu}}$
Bulgaria	+	−	−
Greece	−	−	+
Spain	−	+	+
Italy	−	+	−
Portugal	−	+	+
Romania	−	−	+
Slovakia	+	−	−
Hungary	−	+	−
Czech Republic	−	+	−

Source: author's calculations based on data of the State Statistics Committee of Ukraine and Economic Web Institute.

As for the asymmetric trade relations under scenario $k_{ue} < 1$, $k_{eu} > 1$, as already noted, it is important for the country with direct interrelation coefficient of less than unity to fulfil inequality (2). From the data in Table 2, we see that only one of the countries listed in Column 2 of Table 3 meets this requirement – Germany. It is generally believed that this pattern is typical of the relations between an industrial country and a developing one. Here, Germany is interested in boosting its exports to Ukraine, since our market has not been so far saturated with high-quality manufactured goods. At the same time, Ukrainian imports are not significant for Germany, as the niche for Ukrainian goods on the German market is minor (Ukrainian products account for only 0.1% of total German imports, but they make 5.2% of Ukrainian exports).

Classification of the EU-27 Countries
by Their Pattern of Trade with Ukraine

Proceeding from the outlined analysis, we can group the countries of EU-27 according to the following attributes:

1) dependence of Ukraine on exports/imports of the given country;

2) dependence of the given country on Ukrainian exports/imports;

3) zero dependence of Ukraine;

4) zero dependence of the given country.

Based on these criteria, the EU countries can be classified as it is shown in Table 5. The countries the trade with which is balanced (symmetric) are typed in bold.

Having analyzed this classification, we can assert that Ukraine continues to be mostly a raw appendage to Europe, since the country exhibits export dependence on 13 EU countries. Moreover, if to mention that the structure of Ukrainian exports consists mainly of raw materials, the situation looks even worse. The situation is opposite in the trade between Ukraine and the Baltic countries and Slovakia: those countries depend either on exports to Ukraine (Slovakia), or on imports from Ukraine (Estonia, Latvia and Lithuania), whereas for Ukraine, the trade with those countries is of no fundamental importance, except for exports to Slovakia. Nevertheless, the trade with these countries should not be neglected, as together they account for 3% of Ukraine's foreign trade turnover. The trade of Ukraine with many countries of the EU – there are 11 such countries – is of little significance for either side. Unfortunately, these countries include advanced large European economies, such as Great Britain, France, Sweden, Belgium, etc.

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Table 5

Classifying EU-27 countries by their trade pattern with Ukraine

Type of dependence	Export dependence of Ukraine	Import dependence of Ukraine	Zero dependence on Ukraine's side
Export dependence		**Austria, Poland**	Slovakia
Import dependence	**Austria, Poland,** Slovakia, Bulgaria		**Estonia, Latvia,** Lithuania
Zero dependence on the country's side	Greece, Spain, Italy, The **Netherlands,** Germany, Portugal, Hungary, Czech Republic, Romania	Germany	Belgium, Great Britain, Denmark, Ireland, **Luxembourg**, Finland, France, Sweden, **Cyprus,** Malta, Slovenia

Source: author's calculations.

The worst situation for Ukraine is in its trade with Germany, where Ukraine is both export- (mainly raw resources) and import-dependent (mainly high technologies).

Yet, the trade relations of Ukraine with Austria and Poland could be regarded as optimal. Here, two sides are interested in bilateral trade relations, since they mutually depend upon both exports and imports. Moreover, the trade between Ukraine and these countries is symmetric and equal, which makes their trade relations even more attractive.

Conclusions

When activating its Euro-integration processes, Ukraine should take into account that the European Union consists of the countries with different economic development and different traditional foreign economic relations. According to the patterns of trade between Ukraine and the EU countries, we can conditionally single out the following three groups:

1. The countries with which Ukraine is trading on the basis of parity partnership (Poland and Austria, to some extent Bulgaria, and Slovakia);

2. The countries whose trade relations with Ukraine are based on the unilateral interest:

2.1. on the part of these countries (Estonia, Lithuania, Latvia);

2.2. on the part of Ukraine (Greece, Spain, Italy, Netherlands, Germany, Portugal, Hungary, Czech, and Romania);

3. The countries the trade relations with which have little importance for either side (Belgium, Great Britain, Denmark, Ireland, Luxembourg, Finland, France, Sweden, Cyprus, Malta, and Slovenia).

Consequently, the following recommendations will sequentially refer to the countries of these three groups. At the initial stages, it is worthwhile to focus at the countries of the first group (especially Poland and Austria), the trade with which is traditional for Ukraine and at the same time equitable and interrelated.

As for the second group, – in particular the countries which exhibit dependency on Ukrainian imports but are too small to produce a noticeable effect on the Ukrainian economy, – Ukraine should be interested in maintaining relationships and expanding trade relations with them. At the same time, an essential drawback of Ukraine's relations with the other countries in this group is Ukraine's considerable export dependence due to its raw-materials-oriented exports. Moreover, the countries which are the key markets for Ukrainian exports do not exhibit dependence on the Ukrainian goods (this is especially true for Germany). Thus, in the future, Ukraine should make efforts to improve this situation and overcome its export dependence.

Finally, more attention should be paid to the development of trade relations with the countries of the third group, which includes many industrial countries the trade with which will accelerate the integration of Ukraine to the European economic space.

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