Ukraine’s foreign trade with the EU from the perspective of consumption security

Abstract. In the conditions of global and supra-regional competition, where customers are offered goods (services) that serve the same purpose but differ in quality, the problem of ensuring consumption security becomes increasingly relevant for Ukraine. On the one hand, it is a key factor that shapes demand, but on the other, it contributes to increasing the competitiveness of economic entities.

Keywords: consumption security, European integration, foreign trade, export, import

1. Introduction

In the process of European integration, domestic enterprises must take into account and adhere to modern market conditions. With the accession of our country to the World Trade Organization (WTO), as well as with the signing of the Association Agreement between Ukraine and the EU [Ухода про асоціацію між Україною та ЄС [Uhoda pro asotsiatsiyu mizh Ukrayinoyu 2014]], where standardization and certification are key in the model of economic regulation, the state has committed itself to adapting the
institutional framework to relevant requirements. This will eliminate technical barriers to trade, namely for free access to the domestic market of Ukraine of foreign products, which should increase the level of economic security and ensure the competitiveness of the national economy. At the same time, we consider the hypothesis of a threatening impact of European integration on security of consumption in Ukraine to be valid. Therefore, to identify threats and take into account negative trends in foreign trade, justify strategic priorities and a system of measures to minimize threats to consumer security and strengthen the competitiveness of the national economy, we will analyze bilateral cooperation between Ukraine and EU member states.

To do this, we use quantitative and qualitative indicators to assess trends in the volume and structure of trade between Ukraine and EU member states, dominant product groups, levels of concentration and specialization of foreign trade [Nakaz Ministerstva Ekonomichnoho Rozvytku i Torhivli Ukrayiny 2013; Vlasenko 2017]. The values of indicators are calculated on the basis of data from international organizations (UN, ITC, WTO) and the state statistics service on foreign economic and innovation activities after their rationing.

2. Results

2.1. Recent trends in foreign trade between Ukraine and the EU

In the geographical structure of foreign trade, the share of the EU is constantly growing (Fig. 1) – from 11.57 billion $ in 2001 (32.84% of total exports, 39.48% of total imports) to 50.15 billion $ in 2019 (46.41% of total exports, 52.65% of total imports) with declines in 2009 to 30.93 billion $ and in 2015 – up to 29.79 billion $, related to the economic crisis and military-political conflict with Russia. At the same time, the dynamics of development of trade relations between Ukraine and EU member states is not positive in terms of threats to economic security.

Throughout Ukraine’s independence, the foreign trade balance with the EU has been negative, with imports rising particularly rapidly from 2005 ($ 16.42 billion) to 2008 ($ 37.86 billion) with a sharp falling in 2009 to 19.85 billion $, a gradual increase until 2013 (32 billion $) and a deep decline until 2015 (15.38 billion $). In 2015, the foreign trade balance reached a minimum value ($ 0.97 billion), and since then the EU has become the first importer of goods to Ukraine. The signing of the economic part of the Association Agreement between Ukraine and the EU in 2014 had a time-delayed effect, which began to manifest itself in 2016, which significantly increased the share of exports (40.76%) and imports (46.52%) of the EU in the structure of foreign trade against the background of...
falling foreign trade with Russia. As noted by L. Vlasenko [2017: 80], the negative balance of foreign trade has a negative impact on the economic security of the state, creates a deficit of foreign currency and increases the pressure on the national currency.

2.2. The structure of foreign trade between Ukraine and the EU

The main groups of Ukrainian exports were: base metals and articles thereof, vegetable products, machinery, equipment and mechanisms, electrical equipment, mineral products, fats and oils of animal or vegetable origin, finished foods.

Over the past four years, there has been a sharp increase in exports of plant products, mineral products and a significant decrease in exports of base metals and metal products (due to declining global demand for metals), equipment and machinery (probably due to reduced competitiveness of Ukrainian producers due to non-compliance with European directives or replacement by analogues, such as Chinese). This indicates the raw material nature of exports, foreign trade with the EU in goods with a low level of processing and low added value.

The commodity structure of imports from the EU includes: machinery, equipment and mechanisms, electrical equipment, products of chemical and related...
industries, mineral products, polymeric materials, plastics and articles thereof, finished food products, everything else – in much smaller volumes. The structure of imports to Ukraine from the EU is more diversified due to the needs of Ukrainian consumers and the desire to buy better quality goods.

Significant exports of plant products, base metals and their products create opportunities for Ukraine to maximize the natural resource potential in the development of the agro-industrial sector and metallurgical industry, which causes negative consequences of cooperation. Thus, as of 2019, the main items of exports of metallurgical products to the EU were ferrous metals (3145.6 million $ or 82.85% of exports to the EU) and ferrous metal products (439.8 million $ or 11.58% of exports to the EU). The EU’s interest in imports of ferrous metals poses significant threats to the environment in the long run, as metallurgical industries with insufficient manufacturability and environmental friendliness are key polluters. Regarding the export of plant products, there is a predominance of cereals (sunflower, corn, wheat), oil and fats, which also poses certain threats associated with depletion and damage to the soil [UkrAgroConsult 2020].

2.3. The export-import structure between Ukraine and the EU by main categories of CGCE

A significant threat to security of consumption is the filling of the market with European products of different quality with different degrees of processing, used as raw materials, means of production, intermediate or consumer goods. Their analysis will be based on the separation of groups of goods according to the Classifier of goods by consolidated economic groups (CGCE) UN [Official site of the United Nations Statistics Division on International Trade, 2020] and the method proposed by L. Vlasenko [2017: 89]. The share of means of production in the structure of exports of Ukrainian goods to EU countries over the past five years (Fig. 2) was at a very low level – about 2%, consumer goods – in the range of 6–12%, with dominance intermediate goods, the share of which increased every year.

The commodity structure of imports was dominated by intermediate (45% in 2019) and consumer goods (34.06% in 2019) with a fairly high level of supplies to Ukraine of means of production (about 20% in 2019), while in recent years there was a constant growth of each share (Fig. 3).

2.4. Changes in export-import volumes between Ukraine and the EU by level of manufacturability

Considering the structure of foreign trade of Ukraine and the EU in 2019 by commodity groups CGCE, we note that: the largest negative balance was
Fig. 2. Dynamics of changes in the structure of exports of goods to EU member states by main categories of CGCE (2015-2019), mln. $

Source: compiled by Trade Map 2020.

Fig. 3. Dynamics of changes in the structure of imports of goods from EU member states by main categories of CGCE (2015-2019), mln. $

Source: compiled by Trade Map 2020.
achieved in trade in goods of 41 groups – capital equipment (except transport equipment) (–4233.95 million USD); the second position was occupied by goods of 42 groups of parts and devices for capital property (except for transport equipment) (–1498.99 million US dollars), followed by goods of 51 (cars) and 7 (other goods) groups.

Significant indicators of imports from the EU in these groups emphasize the high competitiveness of European equipment, technological equipment, road transport, which has no alternative in Ukraine today. Analysis of the structure of foreign trade in goods between Ukraine and the EU in terms of technology confirms these conclusions. The general trade portfolio was decomposed and individual product groups were selected according to the criterion of manufacturability in accordance with the OECD methodology (low – the share of industry expenditures on R&D in production < 0.3%; below average – 1.0-2.9%; above average – 3.0-4.9%, high – more than 5.0%) [Vlasenko 2017: 91-92] shows the dominance in the structure of exports of products of low and below average level of manufacturability (Fig. 4). At the same time, until 2014, products with a level of manufacturability below the average prevailed, and starting from 2015, the structure of exports was dominated by raw materials. The share of products with a level of manufacturability above the average fluctuated for twenty years at the level of 8-16%. High-tech goods were exported to the EU in very limited volumes, accounting for 0.3-0.9% of total exports.

Fig. 4. Dynamics of change in the volume of exports of Ukrainian products to the EU by level of manufacturability (2001-2019),%

At the same time, the structure of supplies of products from the EU to Ukraine (Fig. 5) for twenty years was dominated by goods with a level of manufacturability above average (35-50%) and below average (25-34%). In 2014 and 2015, goods with below-average manufacturability prevailed. At the same time, imports of high-tech goods remained at a fairly high level (6-11% of the total).

According to the technological component of trade with the EU, Ukraine acts mainly as an exporter of raw materials with low added value and an importer of technological finished products with higher added value. This situation, when exports are characterized by low technology, while imports are dominated by high-tech goods, leads to technological dependence on the EU and other countries and the deepening of structural imbalances in Ukraine’s economy. Technological backwardness of domestic enterprises, inefficient institutional support of international cooperation poses serious threats to consumer security, in particular its scientific and technical component.

3. Conclusions

Positive changes in foreign trade between Ukraine and the EU, especially due to the signing of the Association Agreement, are accompanied by negative trends that threaten the economic security and security of consumption of Ukraine: (a)
the negative balance of foreign trade with the EU and the growth of European imports; (b) low level of export coverage of imports; (c) high share of high-tech products in the structure of imports and (d) high share of raw materials with a low level of manufacturability in the structure of exports. All these is harmful to the environmental and economic component of consumption safety.

The unpreparedness of enterprises for the openness of the domestic market, inexperience in products conformity and, consequently, its uncompetitiveness in foreign markets is a real threat to the economic security of both the state and individual businesses. To overcome it it is necessary to study the institutional basis, theoretical aspects, practical experience of declaring the conformity of products in the conditions of adaptation of the technical regulation system of Ukraine to the European model. In addition, technical restrictions in the form of technical regulation, sanitary and hygienic norms and standards of quality and safety, packaging and labeling rules contribute to increasing the welfare of the population through higher quality goods, which is a value for consumers and results in consumption safety.

References


Uhoda pro asotsiatsiyu mizh Ukrainoiou, z odniyeyi storony, ta Yevropeys'kym Soyuzom, Yevropeys'kym spivtovarystvom z atomoiy enerhiyi i yikhnimy derzhavamy-chlenyam, z inshoi storony, 2014, [Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community, and their Member States, of the other part], https://zakon.rada.gov.ua/laws/show/984_011/page#Text [accessed: 19.03.2020] [In Ukrainian].


Vlasenko L.V., 2017, Stratehichni priorytety ta zasoby rozvytku zovnish'notorhovel'nykh vidnosyn Ukrainy z KNR v umovakh hlobalizatsiyi, Dyssertatsiya na zdobutya naukovoho stupenya kandydata ekonomichnykh nauk, Na pravakh rukopysu [Strategic priorities and means of...
Wymiana handlowa Ukrainy z UE
z punktu widzenia bezpieczeństwa konsumpcji

Streszczenie. W warunkach konkurencji globalnej i ponadregionalnej, gdzie na rynku oferowane są towary (usługi) służące temu samemu celowi, ale różniące się jakością, problem zapewnienia bezpieczeństwa konsumpcji staje się coraz bardziej istotny dla Ukrainy. Z jednej strony bezpieczeństwo konsumpcji to kluczowy czynnik kształtujący popyt, z drugiej zaś przyczynia się on do wzrostu konkurencyjności podmiotów gospodarczych.

Słowa kluczowe: bezpieczeństwo konsumpcyjne, integracja europejska, handel zagraniczny, eksport, import