

New challenges and opportunities in the context of Ukraine's integration with the EU



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The beginning of 2016 was marked by an unprecedented event for economy of Ukraine, its place in the global labor division, participation in production chains, etc. Since January 1, an economic part of the Ukraine - EU Association Agreement began its full operation, thereby created a free trade zone between our country and the most integrated economic bloc in the world. Many years we went towards this goal. Since the failure of the previous leadership of Ukraine to sign the Association Agreement, the most dramatic pages in our country's modern history began. Despite the series of events that occurred with hurricane speed during the Revolution of Dignity and on, today, Ukraine faces new challenges. Since January 1, Ukrainian market is opened for products originating from the EU, which is not the same as unilateral application of the Agreement for Ukrainian goods imported by countries of the Union, the regime used up to that date. Large-scale competition, high standards for goods safety and quality, a number of saved trade restrictions, poor differentiation in the range of Ukrainian exports is both: a challenge and training for further expansion in the global markets.

Why are we still optimistic about the economic future of Ukraine within such a difficult economic situation? Today, as never before, the wide range of business



opportunities are opened in Ukraine. Competitive advantages for foreign investors will become the best basis for economic growth of our country.

Among these competitive advantages first of all our natural wealth should be mentioned: substantial territories with fertile soil land, favorable geographical position, rich resource base. Thereby, inclusion of the Ukrainian economy in the common market, integration of the transport infrastructure to the European network will strengthen EU economic opportunities and facilitate European business' access to the promising markets of the third countries. Secondly, we have a highly skilled labor force, which at the same time is the least costly resource due to the low cost of living in Ukraine. According to the point of view of my colleague the Ambassador of Germany to Ukraine Christof Weil, «the most valuable resources of Ukraine is its talented youth, desire for change and a vibrant civil society, which is the decisive force in the pursuit of reform.» In the third place, Ukraine is one of the best low-cost production platforms, mainly due to low energy tariffs. And the fourth advantage consists in developed international legal framework in the field of trade and economic relations with at least 10 wide scale free trade zones created by Ukraine with its partners. But, of course, the most significant step of Ukraine towards its integration to global economy has become a free trade agreement with the EU.

Thus, today zero duties are already set for European goods that cover 70.9% of commodity nomenclature. The average import duties for the EU goods decreased to 2.7% (the average rate before the FTA was 4.86%). For the agriculture and food goods groups the average duty is 7.48% and for NAMA goods is only 1.12%. Henceforth, Ukraine will reduce import duties during transition periods while applies the tariff quota for a number of sensitive agricultural goods (pork, poultry meat and semi-finished poultry meat, sugar) i.e. establishes volumes of production which can be imported without paying duty.

Given the substantial simplification of customs formalities and implementation of the European standards into national legislation, foreign producers become attracted increasingly by delocalization of production and its possible transfer to Ukraine. A striking example in Ukrainian-Italian economic relations is creation in Ukraine of the subsidiary of the large Italian company "Emil-ceramica", with nearly 70-year history of ceramic tile production in Italy and abroad. In 2005, the enterprise in collaboration with



Ukrainian partners established "Zeus Ceramica" company in Eastern Ukraine, widely known among experts for its' high quality refractory clay and sand with low iron content as the main components for the production of high quality products. Financially supported by International Financial Corporation, this company launched two production lines and today, the current market share of "Zeus Ceramica" is 12%, with about half of the output exported.

On the other hand, it is impossible to speak about Ukraine avoiding the topic of Russian aggression, which led to catastrophic consequences for the economy. In order to understand how damaged is domestic economy, one need only to recall Russia's actions in Crimea and Donbas which led to a 20% drop of Ukrainian GDP. This is not to mention the loss of natural resources, ports, labor, scientific and educational potential or the cases, when the whole plants were taken to Russia. On the other hand, there was a ban on Ukrainian goods import to Russia.

In fact, for the first time in Ukraine's history our country has more favorable terms of trade, business and investment placement with Europe than with Russia. Aside from the economic impact on the further development of the country, this change means a shift in geopolitical position of Ukraine to the West. As a matter of fact, it is the first time in the post-Soviet history, when Russia cannot dictate Ukraine their political and economic demands, pressing Kyiv to gas noose. Incidentally, the economic gap with Russia has just began and this painful process would certainly be used by Moscow to cause Ukraine maximum damage.

It is no doubt, that without the international community support Ukraine would have unlikely withstand this confrontation with Moscow. Despite numerous criticisms of the sanctions policy, sanctions have become an important mechanism that forced Russia to slow further proactive steps in Ukraine. Herewith, the loss of a number of the EU economies in Russia is not as significant as supporters of the principle «business as usual» try to prove, despite violation of a number of international agreements by the aggressor. For example, in the case of Italy, the central bank has concluded that the impact of sanctions on the economy of Italy was not noticeable and dramatic reduction of trade with Russia is explained by such factors as oil prices fall, ruble weakening and a sharp decrease in the purchasing power of Russians. In Germany, there is a slightly

different process: the export of German goods to Russia decreased for five consecutive years and accelerated the deterioration of the situation in the Russian economy.

Ukraine today is definitely a window of opportunities for foreign businesses. Moreover, the creation of the EU as a supranational holistic formation envisaged the need for relevant transformations of surrounding countries to become friendly space built on principles that facilitate the internal and external integration. From this perspective, Ukraine's integration to the EU is critically important geopolitical and geo-economic factor for the development of the EU itself.

