

Ukraine's exports grow, driven by shipments to the EU

Ukraine's exports continue to grow for the second year in a row, although at a somewhat slower pace than in 2017. The growth has been driven primarily by strong expansion of exports to the EU, where the DCFTA has been fully enacted since September 2017, although actual implementation started earlier.

The destination of exports shifted away from Russia to the EU, and the share of the EU in total exports reached 42% over the first half of 2018. Still, about half of Ukraine's exports of goods are designated to other trade partners, in particular in Asia.

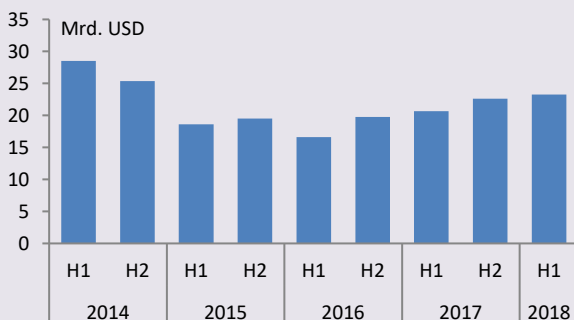
Exports to the EU are still dominated by agro-food products, including grains and sunflower oil, and mineral and metal products. However, the role of machinery and equipment has been growing, largely thanks to shipments of ignition wiring sets. The production of wires and other automotive spare parts for exports has developed in Ukraine driven by FDI inflows. Between 2015 and mid-2018, 9 new factories producing wires and 2 factories producing car seat covers were opened in the country, creating together over 18 thousand new jobs.

There is also a growing diversification of exports to the EU. The number of shipped products increased by about 11% since 2013, mostly due to an increasing number of industrial goods.

Ukraine's exports continue to grow

The revival of Ukraine's exports of goods, which started in the second half of 2016, continues, although at a slower pace. In the first half of 2018, exports grew by 12.7% yoy in dollar terms compared to 24.2% yoy a year before. The exports value reached USD 23.3 bn.

Ukraine's exports of goods

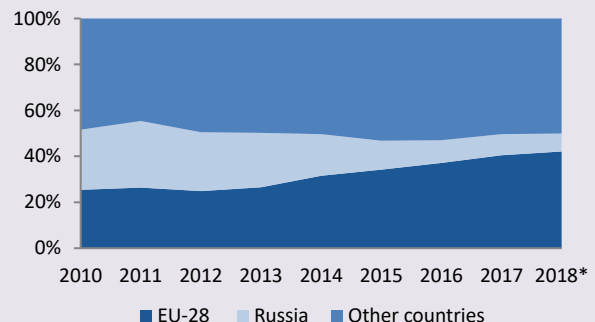


Source: Ukrstat, own estimate

EU becomes more important partner

The exports of goods to the EU expanded more than twice as fast (19.2% yoy) as the exports to the rest of the world (8.3% yoy), explaining about 60% of the total export growth during the first half of 2018. This can partly be attributed to the impact of the Deep and Comprehensive Free Trade Area (DCFTA), which implementation de facto started already in 2014, although the full-scale enactment occurred only in September 2017. Thus, Ukraine continues to reorient its goods exports away from Russia towards the EU. The share of the EU reached 42% of total exports in the first half of 2018, while the share of Russia dropped to less than 8%, as Ukraine's exports to this country have resumed their decline in 2018 after a short revival in the previous year.

Structure of Ukraine's exports by destination



Source: Ukrstat, own estimate, * first half of 2018

Still, third countries (i.e. not the EU and Russia), in particular the Asian countries, absorbs half of Ukraine's total goods exports. The conclusion of the DCFTA with the EU entailing Ukraine's alignment with the EU product standards has positively affected exports to third countries, in particular exports of agriculture and food products.

Structure of exports to the EU evolves

In the first half of 2018, the structure of exports to the EU shifted away from agro-food exports to industrial products due to the reduction of exports of two key Ukraine's agro-food products – maize and sunflower oil. Exports of maize to the EU dropped by 17% and of sunflower oil by 30% yoy due to a lower domestic harvest in 2017. At the same time, exports of industrial products including metal products, machinery and mineral products (primarily ores) have been expanding.

Structure of exports to the EU

	H1 2017	H1 2018
Agro-food products	33%	26%
Mineral products	13%	14%
Metal products	21%	24%
Machines, equipment	15%	16%
Other products	18%	20%

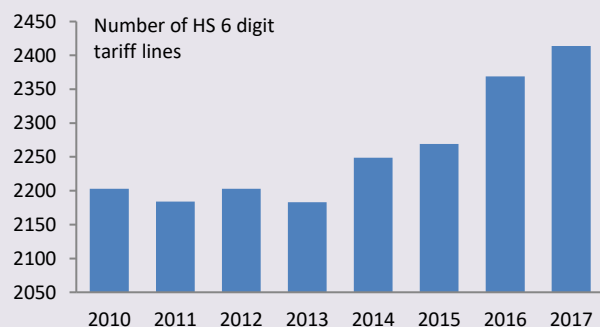
Source: Ukrstat, UN ComTrade, own estimate

The exports of ignition wiring sets (i.e. automotive supplies) grew by an impressive 24% in the first half of 2018 and its share in Ukraine’s exports to the EU reached 7%, the second largest after maize (8%). The strong export performance of this product is a revelation of the development of an automotive supply chain in Ukraine which is increasingly integrated with car production in the EU. Between 2015 and mid-2018, 9 new factories for production of wiring sets and similar equipment and 2 factories producing car seat covers were opened in Ukraine, creating over 18 thousand new jobs. At least two more factories are under construction. The sector attracted investors from the EU, the USA and Japan.

In addition to wiring sets, exports of other machinery products to the EU also intensified. For example, exports of parts for transmitting apparatus grew by 74% yoy and reached 1% of total exports to the EU, while exports of coffee and tea makers increased by 111% yoy up to 1% of exports.

There is also a stable tendency for a growing variety of Ukraine’s exports to the EU since 2014, when DCFTA implementation de-facto began. The number of ‘active tariff lines’ featuring an annual export value to the EU of at least USD 5,000 increased by 231 or 11% over 2013-2017. In 2017, Ukraine exported to the EU 160 more industrial products and 71 more agro-food products than in 2013.

Variety of exports to the EU



Source: WITS, own estimate

Note: Goods with an exported value > USD 5,000

Moreover, the level of processing of products that Ukraine exports to the EU increased. The share of raw

materials in Ukraine’s exports to the EU slightly dropped from 34% in 2013 to 32% in 2017, while the share of processed products increased from 32% to 43% over the same period.

Summary

Ukraine’s exports of goods continue growing for the second year in a row, although at the slower pace. The exports to the EU expand twice faster than the exports to other trade partners.

All key categories of exports to the EU keep growing, except for agro-food products, which are dragged down by a lower harvest of maize and sunflower seeds in 2017. A positive development is that exports of machine building products have been expanding, in particular wiring sets, as new production capacities have been built in Ukraine by foreign investors.

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