

Kyiv National University of Trade and Economics
The Department of World Economy

FINAL QUALIFYING PAPER (PROJECT)

on the topic:

**« UKRAINE’S STRATEGIC PARTNERSHIP WITH EU COUNTRIES IN
TRADE AND ECONOMIC COOPERATION» (based on the data of ICC
Ukraine)**

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SUMMARY

Tiurina A.L., Ukraine's strategic partnership with EU countries in trade and economic cooperation (based on the data of ICC Ukraine).

This final qualifying paper is to obtain a master degree. The specialty reference number and title: 051 – economics; international economics. – Kiev national university of trade and economy. – Kyiv, 2020.

The final qualifying paper is devoted to the study of the current state of the strategic partnership between Ukraine and the EU in trade and economy and on this basis to analyses of the effectiveness on trade and economic cooperation between Ukraine and the EU.

Ways to increase efficiency of the strategic partnership between the Ukraine and the EU in trade and economy are analyzed. It has been determined that the development of trade and economic Ukraine's relations with the EU in the near future depends on the balanced policy of the government to stimulate own production and investment activities with a wide range of financial and economic and organizational and legal mechanisms.

On the basis of consideration of international economic activity between Ukraine and the EU, priority areas of strengthening the strategic partnership and the recommendations of implementation of the proposed measures, are developed.

Key words: strategic partnership, international economic activity, trade and economy cooperation, efficiency analyses, priority areas determination.

Анотація

Тюріна А.Л., Стратегічне партнерство України з країнами ЄС у торговельно-економічній сфері (на матеріалах Міжнародної торгової палати України).

Випускна кваліфікаційна робота на здобуття ступеня магістра за спеціальністю 051 – економіка; міжнародна економіка. – Київський національний торговельно-економічний університет. – Київ, 2020.

Робота присвячена дослідженню сучасного стану стратегічного партнерства між Україною та країнами ЄС у торговельно-економічній сфері і на цій основі перевіряє ефективності торговельно-економічній співпраці між Україною та країнами ЄС.

Аналізуючи тенденції підвищення ефективності стратегічного партнерства між Україною та країнами ЄС. Визначено, що розвиток торговельно-економічних відносин України з ЄС більшою мірою залежить від зваженої політики уряду щодо стимулювання власної виробничої та інвестиційної діяльності за допомогою широкого кола фінансово-економічних та організаційно-правових механізмів.

На основі розгляду міжнародної економічної діяльності України та країн ЄС було визначено пріоритетні напрями посилення стратегічного партнерства та розроблено рекомендації запровадження запропонованих наслідків.

Ключові слова: стратегічне партнерство, міжнародна економічна діяльність, торговельно-економічна сфера, перевірка ефективності, визначення пріоритетних напрямів.

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INTRODUCTION

The relevant of the final qualification (project). The modern stage of economic development, intensification of the process of globalization in the world market and large-scale integration of Ukraine require revision of traditional concepts of trading activities. In this context issues that concern defining problems and prospects of the international trade development gain particular urgency, as long as the mentioned trading activity is one of the most advanced forms of international economic relations.

Economic relations in the world market are based on the global division of labor and are manifested through various forms of international economic relations, one of which is international trade. Different forms of international economic relations are closely connected and influence each other, creating conditions for mutual development.

Ukraine's integration strategy into the European Union (EU) is a complex socioeconomic, political and legal problem. Its implementation requires an objective social and political base of support for the European integration course expansion. This explains the need to analyze and study the key issues associated with the institutional changes in the context of promoting the European integration development at the level of business associations, trade unions, civil society organizations, etc. In this case, it acquires a special urgency in the formation problem of active Ukraine regions involvement in the formation and the integration policy implementation into EU structures mechanisms. Ukrainian Government, Parliament and the public and business must work together to ensure the regional logistics of effective integration with the EU revitalization, to identify promising areas and ensure maximum regional opportunity use, promote regions self-development in an integrated campaign for Ukraine's integration into the European space in the experience of EU member states light.

Analysis of the level of development of topic. The theoretical and methodological basis for studying the nature of trade relations and, in particular, international trade and economy, was formed by works of the following foreign scientists: Ph. Kotler, M. Coulter, E. Mansfield, Lee H. Radebaugh, S. Robins, J. Sachs, and others (Renard, 2017). Among the national scientists who consider research problems concerning the nature of international trade and economy, its significance at the present stage of development of the Ukrainian economy and prospects to enhance its effectiveness, there should be mentioned B. Danylyshyn, O. Danyltsev, I. Dakhno, A. Dunska, A. Kyrieiev, A. Lokota, V. Matvieieva, A. Portanskyi, V. Rokocha, A. Rumiantsev, and others (Vlasyuk, 2015).

The purpose of the project is to investigate the international economic activity of Ukraine and the EU countries and to define prospects for the further strategic partnership between Ukraine and the EU.

The object of the research is the process of strategic partnership between countries in the international economy.

The subject of the FQP are theoretical and methodical aspects of strategic partnership between countries in the international economy.

The task of the project is to:

- analyze current state of the strategic partnership between Ukraine and the EU in trade and economy;
- study the strategic partnership between countries in trade and economy;
- study the strategic partnership effectiveness between Ukraine and the EU in trade and economy;
- assess the environmental impact factors on the dynamics and structure of trade and economic flows between Ukraine and the EU;
- find ways to increase efficiency of strategic partnership between Ukraine and the EU in trade and economy;
- implement the proposed measures consequences in the bilateral trade and economy relations.

Research methods. The fundamental works of leading domestic and foreign scientists on the problem formed the theoretical and methodological basis of the study. In the process of solving these tasks methods of analysis and synthesis, induction and deduction, methods of systematic generalization and comparison, statistical methods and institutional method were applied.

The scientific novelty of the results of the final qualification work. The scientific novelty of the work is to systematize approaches to improving trade and economy relations between Ukraine and the EU.

Approbation and utilization of research results: article “Strategic partnership between countries in the international economy” in collection of scientific articles “International economics”, KNUTE, Kyiv, 2020 .

The final qualification work consists of an introduction, three parts, conclusions, references and appendices.

In the first part we survey the strategic partnership between countries and current state of the partnership between Ukraine and the EU in trade and economy.

In the second part we calculate the Ukraine’s foreign trade balance and volume of foreign trade of Ukraine with EU countries in order to define environmental impact factors on the dynamics and structure of trade and economy flows and analyze the effectiveness of the cooperation.

In the third part we provide priority areas for strengthening the strategic partnership and projection of implementation of proposed measures consequences in bilateral trade and economy relations. The conclusion part summarizes research and outlines the topic of final qualifying paper.

PART 1. RESEARCH OF THE CURRENT STATE OF THE STRATEGICAL PARTNERSHIP BETWEEN UKRAINE AND THE EU IN TRADE AND ECONOMY

1.1. Strategic partnership between countries in the international economy

We live in a period of transition. That is a fact that no researcher or practitioner of international relations doubts. The last decade of the previous century ended the cold war rivalry, which had been in the centre of international affairs for almost 50 years. The countries, that were closely adherent to one of the two blocks, got back the capability of unconstrained choice of potential allies and conducting politics according to their self-made out interests. The fact that the Soviet Union's collapse marked a change of the international affairs polarity is nothing when it comes to the changes determined by the globalisation. This is the first time in centuries, when the Westphalian system of sovereign and national states has been questioned. An overwhelming codependencies redefined the classic term of security and emphasized new chances and threats for the survival and harmonious development of societies (Long, 2017). Politicians and political scientists all over the world ask themselves a question, how the world will look like in the 21st century and how changes of international politics will influence the capabilities of conducting the politics by the governments? Are we, according to some predictions, experiencing the "end of history"? Or maybe we are sinking in a conflict-creating chaos? The eternal argument between the liberals and realists about state's natural tendency to cooperation or confrontation returned with a new power.

Such foreign researches as H.Milner, M.Kuder, G.Schneider, G.Halsti, Anna-MalinSandström, C. Banks, L. Weimer, J. Delors, and others are engaged in the study that shows how to expand the theoretical understanding of strategic partnerships by presenting an evolutionary analytical model and scale of cooperation intensity (Long, 2017). Works of native researches such as A. Hryzenko, S.Kononenko, B. Tarasiuk, I. Lisizina, and others contain material about the nature, characteristics, and features of

international strategic economic partnership and the directions of strategic partnership between Ukraine and the EU (Tolstov, 2016).

The strategic partnership itself, as a foreign policy tool, can serve to those in power who are faithful to both liberal and realists approach. Its essence lays in cooperation between the subjects that share the same goals. Those goals can stem from the preferences of the main lobbying groups within the subject (priorities ancillary to welfare/social development) or be determined by the structure of the external environment (priorities ancillary to the states' security) (Spatium, 2017). A crucial and a common for both theoretical approaches issue is the parallel maintenance of institutional flexibility and long-term exceptionally close relation between partners. One can say that strategic alliances bring together the elements of the realist alliances and the liberal integration theories.

Globalization as one of the most significant processes in modern world economy is manifested not only in the expansion of the scope and substantive forms of international cooperation, involved into global system of countries, but also increased their interdependence.

The result of the deepening internationalization process are interdependence and interaction between national economies. It can be perceived and interpreted, as the country's integration into the structure, which becomes close to the single international economic system. Although great part of the global product is consumed in the producing countries, national development increasingly linked to global structures and become more versatile and diverse than it was in the past (Renard, 2017).

Strategic partnerships, as a rule, is based on the following principles:

- common interests of partners in fruitful cooperation, mutual recognition of strategic relationships;
- willingness to consider the interests of other parties to achieve strategic objectives, even when such action is ambiguous in terms of appropriate personal gain;
- mutual renunciation of discriminatory actions against one another;
- long-term nature of the partnership, as it is set for a long time;

- availability of effective mechanisms to implement this relationship format;
- consolidation of the legal content and mechanisms in bilateral strategic partnership documents cooperation as strategic objectives should not change depending on the change in leadership in both countries;
- discipline, consistency and predictability, implementation partners of their obligations;
- impact of such cooperation should feel both sides, not only public and political elite, but also economic actors, ordinary citizens of both countries (4).

The number of strategic partnerships has surged in recent decades. Between them, the two most prolific strategic partnership builders, the USA and China, have forged over 130 strategic partnerships, while other important international actors such as the EU, Russia, Brazil, India, Japan, South Africa and Australia count around 50 strategic partnerships among them (Table 1.1).

Strategic partnerships total over 150, although the exact number at any one time is hard to ascertain with any certainty.

Nonetheless, the steep increase in the number of strategic partnerships dispels all doubt that these privileged bilateral relations constitute an important new feature of the international system.

Table 1.1

Summary of strategic partnerships of 12 major international actors

| | China | US | EU | Russia | India | S.Africa | Brazil | Japan | ^a Australia | Mexico | Canada | S.Korea |
|--------|-------|----|----|--------|-------|----------|--------|-------|------------------------|--------|--------|---------|
| China | - | X | X | X | X | X | X | - | X | X | X | X |
| US | - | - | X | - | X | - | - | - | x | X | - | - |
| EU | X | X | - | * | X | X | X | X | - | X | X | X |
| Russia | X | - | * | - | X | X | X | - | - | - | - | - |
| India | X | X | X | X | - | X | X | X | X | X | X | X |

End of table 1.1

| | China | US | EU | Russia | India | ^a S.Afric | Brazil | Japan | ^a Australia | Mexico | Canada | S.Korea |
|-------------|-------|----|----|--------|-------|-------------------------|--------|-------|---------------------------|--------|--------|---------|
| Australia | X | X | X | - | X | - | X | X | - | - | - | - |
| Mexico | X | X | X | - | X | - | - | - | - | - | X | X |
| South Korea | X | - | X | - | X | - | - | - | - | X | X | - |
| Canada | X | - | X | - | X | - | X | - | - | X | - | X |

Source: (Michalski, 2019)

This section analyses the strategic partnerships of the 12 major players in the international system are: China, the USA, Russia, India, South Africa, Brazil, Japan, Australia, Canada, Mexico, South Korea and the EU .1 These actors have considerable weight in the international system and in their respective regions. They have also made strategic partnerships a key dimension of their international engagement with individual states and international organizations. For some countries, such as China, strategic partnerships clearly constitute a major aspect of the diplomatic toolbox and hence form a key part of their foreign policy (Zhongping,2014). For others, such as Russia, Brazil, Mexico, Australia and South Africa, strategic partnerships are seen as a useful form of diplomatic engagement to cement already close links with strategic allies. Still others, such as India, see strategic partnerships as a deliberate strategy for strengthening their position in a multi-polar world order while at the same time retaining a high degree of strategic autonomy. As a long-standing great power, the USA has established strategic partnerships with a number of countries that share a similar outlook on the international system but without any obvious strategy behind them. Finally, the EU uses the possibilities that strategic partnerships offer to reinforce its diplomatic relations with states (or organizations of states), many of which it has concluded association agreements with (Renard, 2016).

Clearly, the actors surveyed here have adopted different approaches according to what they expect to achieve by setting up strategic partnerships and how demanding

they assume the partnership structures will be in order to realize their aims. The variations in the intensity of interaction and scope of activity are clear indications of the strategic importance accorded by the partner actors to individual partnerships. In addition, the degree of formalization is a good indicator of the importance the partner actors attach to the bilateral relationship. In this context, it should be noted that no strategic partnership has been endowed with specific organs, such as independent secretariats or parliamentary assemblies, as most of them remain rather loose entities based on interactions of varying regularity and at different levels, from the expert to the prime ministerial or presidential. The emphasis on regular bilateral consultation and summitry reinforces the character of strategic partnerships as diplomatic venues quite different from many international organizations.

The strategic partnerships mapped out in this report constitute the most significant of the 150-odd partnerships currently in existence. They include a variety of different forms of relationship. The most extensive were established to complement formal treaty-based alliances, for example the strategic partnership between China and Russia. Others, such as the strategic partnership between China and the EU, are characterized by high-intensity interactions without being grounded in a formal treaty-based structure. Still others are much less ambitious, basically denoting ongoing bilateral diplomatic consultations but lacking in common purpose or aims. Thus, the nature of strategic partnerships differs considerably, from extensive in scope, structure and intensity of interaction to having almost no stable structure, covering only a few areas of cooperation and containing little regular activity (Morse, 2014). The fact that the strategic partnerships look so different contributes to the difficulty in understanding their nature – quite simply because non-committal partnerships, such as those between Russia and Brazil or South Africa and India, have very little in common with the high-intensity partnerships between the EU and Canada, Canada and Mexico or China and India.

Another confusing factor regarding the nature of strategic partnerships is that the USA, which before the advent of the Trump administration maintained close traditional

diplomatic and strategic ties with various allies, has never pursued strategic partnerships as purposefully as the EU, Australia, China and India. Since the 2016 election, US foreign policy has been characterized by a more erratic and self-serving attitude to allies as well as a readiness to undermine commitments made in the framework of regional alliances and international organizations.

Another distinct characteristic of strategic partnerships is their propensity to coincide with alliance structures. They do this in two ways: (a) as support structures to longstanding military alliances, where the strategic partnership provides a venue for broadening existing cooperation into other areas and a vehicle for cementing diplomatic commitment to an important ally; and (b) by providing political frameworks to coalitions of states that have been formed to support existing regional organizations or groupings, some of which, for instance the Shanghai Cooperation Organization (SCO), were formed with the purpose of opposing the dominant western liberal order.

The first type is found in the USA's strategic partnership with Australia, which is based on a military and strategic treaty, ANZUS. This builds on long-standing, intensive military cooperation with shared strategic and ideological foundations. The US-EU strategic partnership can also be seen as an effort to broaden cooperation with the EU institutions and its member states, many of which are members of the North Atlantic Treaty Organization (NATO). The EU-US strategic partnership and the many bilateral strategic partnerships that the USA has forged with European countries can be seen as the nexus of a broad western alliance with NATO at its core. From a different ideological standpoint, the strategic partnership between China and Russia is one of the most significant in political, strategic and ideological terms. It is based on a wide-ranging treaty of good neighbourliness and extensive military cooperation. The normative dimension is significant in the China-Russia strategic partnership, which has a clear aim to challenge the liberal order and strengthen the norms and principles of a world order based on Chinese and Russian interests.

In the second type of alliance structure, bilateral strategic partnerships form a political framework in support of existing regional organizations or groupings of

likeminded states. The most striking example is the BRICS countries, which sustain their cooperation through a network of bilateral strategic partnerships. Some of these, such as the Sino-Russian strategic partnership (see above), are significant, while others are less obvious and are less developed, such as the strategic partnership between South Africa and India or between South Africa and Brazil. Less visible here as the analysis is limited to 12 international actors, but important nonetheless, are the strategic partnerships forged between members of the SCO. While not all these countries are tied together by bilateral partnerships, China, as the most significant party to the SCO, has made a point of forging strategic partnerships with all the other SCO members. Moreover, many members of the SCO, such as India, formed strategic partnerships with China and Russia on accession to the SCO.

Another form of strategic partnership for bolstering bilateral relations in existing regional organizations can be found in the strategic partnership between Mexico and Canada, in part conceived as a counterbalance to the dominance of the USA in the North American Free Trade Agreement (NAFTA). In this context, it is interesting to note that the USA has forged a strategic partnership with Mexico but not with Canada, which is surprising given that the two have enjoyed long-standing strategic cooperation and that the USA has forged strategic partnerships with many of the European NATO members. Finally, a number of mid-sized powers in the Asia-Pacific have chosen to bolster their bilateral relations in order to supplement their respective military alliance with the USA and to balance the assertiveness of China in the region. Here, the most ambitious strategic partnerships are those between South Korea and Australia, and Japan and Australia (Colgan, 2017).

All strategic partnerships constitute bilateral diplomatic forums in one way or another, and all of them seek to advance the interests of the partner actors in one dimension or another. However, the diplomatic dimensions of each specific strategic partnership take on different functions depending on the overall relationship between the partner actors. This category does not contain the formal strategic alliances discussed above but includes strategic partnerships that are grounded in close

contractual relations such as association agreements or free trade agreements, where the diplomatic dimension functions as additional political consultation and reinforcement of friendships between states. Here, we also include those strategic partnerships which are forged between primarily antagonistic partners.

Interesting patterns emerge from this category. Most notably China, but also the EU, Australia, Canada, India and South Korea seem to value the opportunities that strategic partnerships provide to forge privileged bilateral partnerships and they all make full use of the commercial and strategic opportunities they offer. These transcend ideological boundaries and create privileged links between long-standing friends and antagonistic partners alike. China's more than 70 strategic partnerships makes it the actor that has perfected the art of forging relationships with other states and non-state actors to further its commercial, strategic and political interests and influence. All of China's strategic partnerships surveyed here are of commercial, political and strategic importance. Many of China's strategic partnerships not surveyed here also have a clear commercial purpose, such as those with a number of Asian and African countries. The Belt and Road Initiative (BRI) is a flagship project of Chinese foreign policy and, following the pattern of conscious Chinese partnering, those countries which have signed investment agreements with China have also entered into strategic partnerships with the country.

1.2. Assessment of international economic activity between Ukraine and the EU

The relations of strategic partnership involving their special status, that is a higher interstate relations in several important areas. Strategic partnership is the geopolitical interdependence, sometimes – geographical, cultural and historical closeness of the two states. In some cases, the search for strategic partners, driven by the desire of the state, become a regional or world leader.

Strategic partnerships, as a rule, is based on the following principles:

- common interests of partners in fruitful cooperation, mutual recognition of strategic relationships;

- willingness to consider the interests of other parties to achieve strategic objectives, even when such action is ambiguous in terms of appropriate personal gain;
- mutual renunciation of discriminatory actions against one another;
- long-term nature of the partnership, as it is set for a long time;
- availability of effective mechanisms to implement this relationship format;
- consolidation of the legal content and mechanisms in bilateral strategic partnership documents cooperation as strategic objectives should not change depending on the change in leadership in both countries;
- discipline, consistency and predictability, implementation partners of their obligations;
- high efficiency strategic partnership;
- impact of such cooperation should feel both sides, not only public and political elite, but also economic actors, ordinary citizens of both countries (Sipri, 2017).

It should be noted that the analysis related to comparing Ukraine to other countries in the world rankings, allowed to define such global problems what affect it and that should be consider when drawing up the strategic development objectives of the country:

A. The social sphere:

A.1. The demographic component: depopulation and population aging by reducing life expectancy.

A.2. Income component: income polarization within the country; the backlog of Ukraine from the world's leading countries in terms of incomes of the population; lack of self-supply of the population for certain types of food.

B. The economic sphere:

B.1. Natural-resource component: the exhaustion of domestic fuel and energy resources; dependence of the economy on the rise in price of fuel and energy resources.

B.2. Scientific and technological component: the gap from the world's leading countries in moving to a new technological structure; slowing down scientific and technical progress.

C. Environmental sphere:

C.1. climate change and global warming;

C.2. waste and recycling;

C.3. atmospheric pollution;

C.4. depletion of freshwater resources.

D. Political sphere:

D.1. The possibility of partners significantly promote the interests of Ukraine in the international arena;

D.2. Their attitude towards Ukraine as a strategic partner;

D.3. The active development of relations with Ukraine in the context of regional integration (Zhongping, 2014).

In addition, Ukraine's economy inherent following specific national issues:

- the economic sphere: low competitiveness of the economy; low levels of economic freedom; low levels of free enterprise; high tax burden, lack of reforms and the complexity of the tax; low level of attractiveness for foreign direct investment; low level of creditability and high probability of default.
- the environmental sphere: low level of renewable energy; lack of purposeful policy in the field of ecology.
- the sphere of government: political instability; low quality and efficiency of public administration; high levels of corruption (Tolstov, 2016).

Sustainable development in every country depends on ensuring its economic security. The main problems of economic security in Ukraine in the order of priority of their decision are the following:

- demographic security: a negative balance of natural population growth; high infant mortality; depopulation; low birth rate of the population; high demographic burden on the working-age disabled population;

- scientific and technological security: a low proportion of the state budget expenditures on science; low share of enterprises introducing innovations; a small number of specialists who perform scientific and technical work; poor value for the share of basic research, applied research, scientific and technical development, scientific and technical services performed on its own; a small amount of industrial property embedded objects;
- macroeconomic safety: a significant negative balance of the current account balance; low level of relations GDP per head to the average value in the EU; a small proportion of disposable income of non-financial corporations in the gross disposable income; low level of relations GDP per head in the world average;
- food security: a population of under-consumption of vegetables, fruits, berries, nuts and grapes, milk and dairy products, meat and meat products;
- financial security: low share of long-term insurance; a large amount of cash; small volume of premiums; large amounts of trade balance deficit;
- energy security high energy intensity of GDP; small volumes of oil transit; insufficient investment in the fuel and energy complex; small volumes of coal mining;
- industrial safety: small volumes of liquidation of industrial assets; high degree of depreciation industry; low share of machine building in industrial production (Radio Free Europe, 2018).

So, Ukraine, like any other country in the world has internal problems that are global, but specific to each state. Therefore, foreign policy should contribute the solving of pressing domestic problems and achieve the strategic goals of the country (Facts and figures about EU-Ukraine relations, 2018). One of the effective tools for implementing foreign policy is to establish strategic partnerships with partners that allow to combine efforts to achieve the vital internal and external strategic objectives.

Ukraine is a priority partner for the European Union (Appendix 1). The EU supports Ukraine in ensuring a stable, prosperous and democratic future for its citizens and is unwavering in its support for Ukraine's independence, territorial integrity and

sovereignty. The Association Agreement (AA), including its Deep and Comprehensive Free Trade Area (DCFTA), is the main tool for bringing Ukraine and the EU closer together, promoting deeper political ties, stronger economic links and respect for common values. Since spring 2014, Ukraine has embarked on an ambitious reform programs, aiming to stabilize its economy and improve the livelihoods of its citizens. Priority reforms include the fight against corruption, reform of the judiciary, constitutional and electoral reforms, improvement of the business climate and energy efficiency, as well as reform of public administration, including decentralization. The EU has pledged a package of €12.8 billion for the next few years to support the reform process, with strong conditionality on continued progress (Radio Free Europe, 2018).

The modern stage of economic development, intensification of the process of globalization in the world market and large-scale integration of Ukraine require revision of traditional concepts of economy and trading activities. In this context issues that concern defining problems and prospects of the international economy and trade development gain particular urgency, as long as the mentioned activities are one of the most advanced forms of international economic relations.

Economic relations in the world market are based on the global division of labor and are manifested through various forms of international economic relations. Different forms of international economic relations are closely connected and influence each other, creating conditions for mutual development. For example, countries with developed international trade have access to international investment and innovation agreements, which creates an opportunity for expansion of trade relations, migration of capital, innovation activity as well as attraction of labor force. Nowadays, international trade is one of the main instruments of the global market influence on national markets by setting up requirements for quality of products, technical parameters of production, level of expenses, etc. Thus, international trade is the driving force behind the production of individual countries and regions, as well as the world economy as a whole. In recent years a feature of the economic development is the growing influence of international trade on the world production, as well as production of individual

countries and regions. International trade is a form of communication between producers and consumers of different countries, which arises on the basis of development of the international division of labor. The modern Ukrainian economy is characterized by its increased integration into the world system of international division of labor as a supplier and consumer of goods and services. Under these conditions, the state and dynamics of the international trade development is extremely important for the economic development of Ukraine.

Development of international trade is one of the prerequisites for Ukraine's European integration. The EU market is the second most important after the CIS market, and since 2014 EU has become the principal export market for Ukraine. Great Britain, Spain, Italy, the Netherlands, Germany, Poland, Hungary, and France are the biggest foreign trade partners of Ukraine among EU countries. Consequently, the main problems of international trade in Ukraine are as follows: heavy orientation of Ukraine's foreign trade towards the CIS (up to 70%); uneven distribution of the country's export potential; prevalence of material-intensive equipment in the export of engineering products (Tolstov, 2016).

Statistics show that the rate of change in foreign investment in Ukraine does not reflect the dynamics of economic development. Mechanisms used in developed countries to stimulate the inflow of foreign capital cannot be used effectively due to the non-transparency of the financial market, insufficient level of infrastructure development, instability of tax legislation, unfavorable investment climate, lack of insurance system. In addition, there are political reasons for curbing the inflow of foreign investment in certain sectors of the national economy.

Ukraine has a high potential for attractiveness to foreign investors and is a promising market because it has rich natural resources, a high level of research and developments in many fields of science and technology, demonstrates significant scientific and technical potential, has agricultural prospects, introduces a national regime activities for FDI companies, is a member of the WTO. Also there is a tendency

to decrease the proportion and value expression of FDI of EU countries in the economy of Ukraine starting from 2015 (Table 1.2).

Table 1.2

Direct investments in the Ukraine economy (million USD)

| Year | Total | Including: | | |
|------|--------|------------|------------|----------------------|
| | | From EU | From EU, % | From other countries |
| 2015 | 38992 | 31 538,4 | 80,88 | 7 454,5 |
| 2016 | 45 370 | 36 969,1 | 81,48 | 8 400,9 |
| 2017 | 48197 | 39 268,9 | 81,47 | 8 928,7 |
| 2018 | 51 705 | 41 132,3 | 79,55 | 10 573,0 |
| 2019 | 53 704 | 41 032,8 | 76,41 | 12 671,2 |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

In order to determine the correctness of the assumption about the impact of the FTA on the volume of investments, it is necessary to pay attention not only to the inflow of investments into Ukraine, but also to the investment of funds by investors outside the country. At the end of 2018, Ukraine had invested abroad less due to the unstable political and economic situation. Therefore, the decline in investment activity in the EU and others can be interpreted precisely so. However, in 2019 the point increased by \$ 25.4 million USD (0.4%), with investment in EU countries falling by \$ 1.6 million USA (0.026%), and to other countries increased by \$ 27 million USA (13.22%) (Table 1.3).

Table 1.3

Direct investments from Ukraine to other countries (million USD)

| Year | Total | Including: | | |
|------|---------|------------|--------------|--------------------|
| | | To the EU | To the EU, % | To other countries |
| 2015 | 5 760,5 | 5 465,0 | 94,87 | 295,5 |

End of the table 1.3

| | | | | |
|------|---------|---------|-------|-------|
| 2016 | 6 402,8 | 6 078,2 | 94,93 | 324,6 |
| 2017 | 6 435,4 | 6 072,7 | 94,36 | 362,7 |
| 2018 | 6 568,1 | 6 150,1 | 93,64 | 418,0 |
| 2019 | 6 702,9 | 6 192,3 | 92,38 | 510,6 |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

The volume of FDI in Ukraine in the economy of other countries in 2019 was 6,340.6 million USD, including in the EU countries - 6 109.4 million dollars (96.35%) and other countries of the world - 231.2 million dollars(3.65%).The volume of FDI to Ukraine due to the introduction of the FTA decreased by 1.16% against the background of an increase in trade with the EU by 7.25%. However, the measure of reduction FDI flow is much smaller than in the case of others countries. So far, the reason for this reduction is only the fact that producers of imported goods are forced to invest in their production on the territory of Ukraine for avoiding high import duties on their finished products or avoiding non-tariff regulation of imports.

Foreign investment is associated with the so-called investment climate, which depends not only on the business environment, but also on the state of internal investment. The problem is that neither business nor the population trust the government, the banking system or them more than other financial institutions (investment and pension funds, credit unions, insurance companies, etc.).

The point of overcoming the crisis should be the policy of the state on the effective attraction and investment of investment resources, which its own example, guidelines and rules will guide private investment policy .

From the table 1.4 one can see the following:

- in 2018, an increase in FDI by 1% led to an increase in GDP by 10.14% and a decrease in exports of goods by 1.12%;

- in 2019, the growth of FDI by 1% led to GDP growth of 4.65% and export growth of 4.37%.

Table 1.4

Analysis of foreign direct investment in Ukraine in 2015-2019

| Indeces | Years | | | | |
|---------------------------------------|--------|----------|-------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Foreign direct investment, mln.USD | 36154 | 37513 | 39144 | 36154,5 | 37513,6 |
| GDP, UAH million | 143182 | 2034430 | 24455 | 1431826 | 2034430 |
| Exports of goods, million USD | 381271 | 36361711 | 43266 | 38127149 | 36361711 |
| FDI change rates,% | -11,22 | 4,15 | 4,35 | -11,22 | 4,15 |
| GDP change rate,% | 4,57 | 42,09 | 20,21 | 4,57 | 42,09 |
| Rate of change in export volumes,% | -29,27 | -4,63 | 18,99 | -29,27 | -4,63 |
| Change in GDP by 1% change in FDI,% | -0,41 | 10,14 | 4,65 | -0,41 | 10,14 |
| Change in exports by 1% change in FDI | 2,61 | -1,12 | 4,37 | 2,61 | -1,12 |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

If you look at the statistics of sources of financing capital investments, it becomes clear the areas in which you need to make decisions. The structure is dominated by own funds of enterprises - on average, in 2019 it was 62%, in 2018 - 71%. Such low diversification of the structure actually limits the opportunities for intensification of investment activity. The problem of lack of resources is significant. Private funds

depend on profits, which in fact do not exist, banks are not interested in long-term lending to the economy.

International financial organizations (MFIs) and foreign companies do not trust the system, do not find quality projects to support. Actually, the key areas for deepening Ukraine's relations with investors from the EU today are:

- substantiation of expediency of use by Ukraine of resource potential of cooperation with EU;
- determining the amount of borrowing and finding ways to optimize international financial cooperation.

Concluding the above mentioned, it should be emphasized that under the conditions of unstable development of world markets and increasing export orientation of the domestic economy, the negative trends in the sphere of trade and economic cooperation of Ukraine will proceed in foreseeable future, affecting the ability to provide sustainable and, most importantly, predictable (in terms of the possibility to prevent new threats, risks and challenges) development of the economy in the medium and long term. That is why ensuring the development of this sphere of the national economy in a controlled and predicted way is extremely important. In this context, the protection of national interests in the sphere of trade and economic cooperation of Ukraine, in our opinion, should be organized in such a way that the detection, prevention and suppression of unlawful encroachments would not contradict the openness of the domestic economic space, obtaining the maximum benefits from participation in existing international associations, as well as joining new economic unions, which will significantly improve the international image of the state, increase its economic potential, competitiveness of the economy, as well as living standards of the population.

Conclusions to part 1

Strategic partnerships perform a number of functions for the partner actors. They provide venues for the pursuit of a number of material and strategic foreign policy

goals. These goals are directed at the international system, cementing hierarchical orders and managing the balancing of power in an emerging world order. Strategic partnerships build on bilateral relations, allowing dominant actors to play their foreign policy roles by providing an arena where international identities are strengthened through the diffusion of norms and principles.

The question of "strategic partnership" is closely linked to the issue of Ukraine's geopolitical choice. During the independence years political and scientific elite of Ukrainian state worked out several models of geostrategic foreign policy of Ukraine, and in the context of these models the question "strategic partnership" is quite relevant, because it helps to identify and understand the main priorities of Ukraine in the international arena and the main goals that put forward the strategy of Ukraine's foreign policy to its national interests. In Ukraine strategic partnership tool does not work in favor of its interests and used haphazard and chaotic. Strategic Partnership with Ukraine loses value to those countries from which Ukraine could get real benefit.

The main strategic directions of state authorities activity to strengthen the position of European integration Ukraine – is accelerating the pace of reform, fighting corruption, building civil society, improve economic legislation. Thus, the problem of strategic partners selection and revision is important for Ukraine and needs further consideration. It is therefore necessary to adopt legislative documents, taking into account the common interests of partners; a list of areas of cooperation, common approaches to international problems; responsibilities and obligations of the parties; factors that may be contrary to the interests of the partner countries.

PART 2. STUDY OF THE STRATEGIC PARTNERSHIP EFFECTIVENESS BETWEEN UKRAINE AND THE EU IN TRADE AND ECONOMY

2.1. Assessment of environmental impact factors on the dynamics and structure of trade and economic flows between Ukraine and the EU

Ukraine's aspiration for full participation in the political and economic life of Europe is due to the geopolitical location and history of our state. In addition, the definition by the European Commission of Ukraine of the state, which is a priority partner of the European Union within the framework of the European Neighborhood Policy (ENP) and the Eastern Partnership, testifies that European integration and membership in the European Union (EU) are the best a means of realizing national interests, strengthening Ukraine's positions in the world system of international relations, for the transition from cooperation to economic integration and strengthening political cooperation, building an economically developed, democratic state.

Taking into account the above, the development of foreign economic relations of Ukraine and the assessment of the possibilities of the state's economy regarding its adaptation to globalization and European integration processes are of particular importance. The main task of the state should be to actively carry out reforms and modernize all spheres of the economy by creating favorable conditions for the successful conduct of business and entrepreneurship in accordance with European standards, a significant improvement of the institutional structures of state regulation, bringing them closer to the principles of EU law (Vlasyuk, 2015). It is important to choose an effective integration strategy, taking into account the experience of the countries that have joined the EU and have become successful. In this regard, the basis of profitable trade and favorable investment climate in Ukraine.

The Eastern European vector in the structure of foreign trade of Ukraine deserves special attention. Among the determinants of the expected effectiveness of trade and economic relations with the countries of the CIS and the Baltics: the geographical proximity of countries; "Interweaving" in historical development; the proximity of language, religion, traditions, etc. When considering the multilateral aspects of

international trade and economic cooperation in the context of the development of globalization and European integration processes, the foreign economic policy regarding the CIS and Baltic countries should be oriented towards the creation of common markets for goods, services, capital and labor. The Black Sea Economic Cooperation (BSEC) may take on a specific place among integration groups. Among its objectives is the multilateral cooperation of the Black Sea states in various sectors of the economy, first of all in industry, agriculture, transport, trade, tourism development, telecommunications, etc (Vlasyuk, 2018).

Western European vector is the most important priority of modern geopolitics. Ukraine has chosen a strategic direction for the development of integration into the European economic, political and legal space. The accession to the European Union (EU) has been identified as the key foreign policy priority and strategic goal of Ukraine at the highest state level. It is important to study the experience of the EU member states, the adaptation of economic policies to the institutional features of the European economy. Therefore, the essential understanding of Ukraine's European choice implies the opening of new prospects for cooperation with developed countries of the continent, creation of strong opportunities for economic development, strengthening of Ukraine's position in the world system of international relations. This is the best way to realize its national interests. For Ukraine, European integration allows to modernize the economy, overcome technological backwardness, attract foreign investment and new technologies, create new jobs, increase the competitiveness of the domestic commodity producer, access to world markets, first of all, to the EU market.

The leading role in Ukraine's foreign economic policy plays foreign trade policy, through which the country can develop specialization, increase the productivity of its resources, increase total production and meet the needs of those products whose production within the country is extremely inefficient or impossible. The export orientation of the Ukrainian economy (for the last ten years the share of exports in the GDP of our country has ranged from 40 to 60%) is one of the most important ways of its development.

Foreign trade significantly affects the dynamics of GDP. Export-import activity of the state has a positive impact on GDP growth under conditions of high productivity and competitiveness of national products. Ukraine's foreign trade balance, including with the EU, during 2014-2019 years is shown in table.2.1.

Table 2.1

Ukraine's foreign trade balance, including the EU, 2015–2019 (million USD)

| Year | GDP a year in actual prices | Export of goods and services | Import of goods and services | Balance (export-import) | Export to EU Countries | | Import from EU countries | | Balance (export import) EU |
|------|-----------------------------|------------------------------|------------------------------|-------------------------|------------------------|---------|--------------------------|---------|----------------------------|
| | | | | | | | | | |
| 2015 | 134917 | 82202.1 | 88842.1 | -6640.0 | 26.3% | 21579.7 | 32.8% | 29146.7 | -7567.0 |
| 2016 | 145909 | 82337.4 | 91364.3 | -9026.9 | 25.4% | 20876.0 | 32.6% | 29827.9 | -8951.9 |
| 2017 | 152265 | 76126.5 | 84602.3 | -8475.8 | 26.7% | 20361.2 | 36.9% | 31198.8 | -10837.6 |
| 2018 | 158691 | 64106.8 | 60750.6 | 3356.2 | 31.8% | 20383.1 | 39.8% | 24207.6 | -3824.5 |
| 2019 | 197945 | 46647.9 | 42583.4 | 4064.5 | 32.8% | 15287.0 | 42.2% | 17956.0 | -2669.0 |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

The study has shown that the degree of change in GDP largely depends on net exports, that are affected by revenues and production volumes of foreign trading partners.

2015 was a year of consolidation of positive economic shifts initiated in the previous year for Ukraine, with a GDP growth of 20.4%. The slowdown in economic growth in Ukraine's main trading partners, including the EU, has led to moderate GDP growth in Ukraine. In 2016 and 2017, we can see a slight increase in GDP and a significant decrease in net exports. In the following 2018 and 2019 years we received positive indicators of net exports, which had a positive impact on Ukraine's GDP.

For a more detailed analysis of our country's foreign trade operations with foreign countries partners and their impact on the development of the national economy we should examine the indicators of Ukraine's foreign trade in goods and services,

including with EU countries, over the past 5 years (Table 2.2).

Table 2.2

Foreign trade of goods and services of Ukraine, including the EU, for 2015–2019
(million USD)

| Year | Goods | | | Services | | |
|------|-----------------------------------|------------------|-----------------|-----------------------------------|------------------|-----------------|
| | Foreign trade turnover in Ukraine | Including the EU | Share of the EU | Foreign trade turnover in Ukraine | Including the EU | Share of the EU |
| 2015 | 151016.8 | 43721.7 | 29.0% | 20027.4 | 7004.7 | 35.0% |
| 2016 | 153467.9 | 43237.7 | 28.2% | 20233.8 | 7466.2 | 36.9% |
| 2017 | 140276.0 | 43796.6 | 31.2% | 22158.5 | 8373.6 | 37.8% |
| 2018 | 108330,4 | 38072.0 | 35.1% | 17 893.9 | 7140.4 | 39.9% |
| 2019 | 75637.1 | 28361.2 | 37.5% | 14695.5 | 5475.7 | 37.3% |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

The study has shown a steady decline in foreign trade operations carried out in the period from 2015 to 2019 (Table 2.2). Except for 2016, where there was a slight increase over the past 5 years. The data also show that the share of the European Union in foreign trade in goods plays an important role, as in recent years the performance of EU countries in total trade in goods with Ukraine has grown rapidly. The EU is an important partner of Ukraine.

Analyzing the commodity structure of exports over the past 5 years, it can be noted that during this period the situation for Ukraine was quite unfavorable due to the passive trade balance and political situation. Let's analyze in more detail the structure of exports of goods to EU countries during 2015-2019 (Table 2.3).

Table 2.3

Main product groups of Ukrainian exports to EU countries

| Name | Export volumes (million USD) | | | | | Share in trade with EU, % | | | | |
|---|------------------------------|--------|--------|--------|--------|---------------------------|------|------|------|------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Ferrous metals (72) | 5304.2 | 3564.3 | 4061.0 | 3890.2 | 2623.4 | 29.5 | 20.9 | 24.2 | 22.9 | 20.2 |
| Cereals (10) | 1031.6 | 1981.0 | 1722.6 | 1805.4 | 1625.9 | 5.7 | 11.6 | 10.3 | 10.6 | 12.5 |
| Ores, slags and ash (26) | 1873.4 | 1615.7 | 1759.0 | 1582.1 | 962.5 | 10.4 | 9.5 | 10.5 | 9.3 | 7.4 |
| Electric machines and equipment (85) | 1553.8 | 1496.6 | 1501.6 | 1649.5 | 1434.1 | 8.6 | 8.8 | 9 | 9.7 | 11 |
| Seeds and fruits oilseeds (12) | 919.6 | 1227.6 | 1248.4 | 919.0 | 645.3 | 5.1 | 7.2 | 7.4 | 5.4 | 5 |

Source: calculated and composed by author based on (Foreign Trade of Ukraine in Goods, 2019)

At the end of 2015, the largest share in merchandise exports with EU countries was occupied by ferrous and non-ferrous metals and their products and was estimated to 20.2%. At the same time, in 2015 this group took 29.5% of exports of goods. The second place according to 2019 data took cereals and had a share of 12.5%, followed by electrical machinery and equipment with a share of 11%.

Analysis of data on imports of goods during 2015-2019 shows a significant change in the structure of imported goods (Table 2.4).

Analysis of data on imports of goods during 2015-2019 shows that the main share of merchandise imports are energy materials, oil and products of its distillation, as well as boilers, machinery, apparatus and mechanical devices. In percentage terms, these groups of goods had a share of 22.3 and 10.2% at the end of 2019. Compared with

2015, such groups had a share of 6.8 and 14.8%. A significant share, which is 27% in 2019, is occupied by other groups of goods. It includes textiles, products from a stone, plaster, cement; optical, photographic and other instruments and apparatus.

Table 2.4

Main product groups of Ukrainian imports from EU countries

| Name | Import volumes (million USD) | | | | | Share in trade with EU, % | | | | |
|---|------------------------------|--------|--------|--------|--------|---------------------------|------|------|------|------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Pharmaceutical products (30) | 1978.5 | 2165.5 | 2318.7 | 1826.8 | 988.9 | 7.7 | 8.3 | 8.6 | 8.7 | 6.4 |
| Energy materials; oil and products of its distillation (27) | 1747.4 | 1955.2 | 3015.0 | 3793.0 | 3416.6 | 6.8 | 7.5 | 11.2 | 18 | 22.3 |
| Electrical machines and equipment (85) | 2378.4 | 1912.1 | 1874.2 | 1403.5 | 1093.2 | 9.2 | 7.3 | 6.9 | 6.7 | 7.1 |
| Polymeric materials, plastics (39) | 1787.2 | 1772.1 | 1786.1 | 1470.4 | 1086.1 | 6.9 | 6.8 | 6.6 | 7 | 7.1 |

Source: calculated and composed by author based on (Foreign Trade of Ukraine in Goods, 2019)

Thus, the analysis shows that a significant share of goods in the structure of Ukrainian exports is with a low level of processing (ferrous metallurgy, chemical, mineral and agricultural raw materials have a share of about 70% of exports), which depletes the country's resource base and makes exports vulnerable to changes in external conditions. In the structure of imports, more than 40% is accounted for by energy, which reflects the significant dependence of the Ukrainian economy, including export industries -

chemical and metallurgical, on external sources of energy supply. In such circumstances, Ukraine's strategic goal is not to increase exports, but to improve the quality and competitiveness of Ukrainian producers, mainly high-tech industries and increase the share of investment goods in imports, which will allow the country to find its niche in foreign markets and gain a foothold (Zadoya, 2016).

Consequently, in the circumstances of the systemic transformation of the Ukrainian economy and the significant changes in foreign trade activities, the consequences of which are multi-sectoral effects on the state of the domestic economy, which is deeply integrated into the global system of international division of labor as a seller and as a buyer of goods and services, for the adoption of effective managerial decisions and An important analysis of trends and changes in the field of foreign trade is important for making state-funded adjustments to the state's economic policy.

2.2. Analysis of the effectiveness of trade and economic cooperation between Ukraine and the EU.

International trade is the sector of international commodity-money relations being the aggregate of foreign trade of all countries worldwide. This is the pioneer form of international economic relations, which represents an exchange of goods and services among national economies (states) . The structure of foreign trade makes it possible to determine competitive positions of a country in the world markets, to discover economic “niches”, where this country is competitive (Economic Truth, 2017). According to a number of national researchers, Ukraine has a significant export potential, which is thought of as the ability of the national economy to produce and sell competitive goods in international markets under conditions of steady increase in the efficiency of natural resources, building of scientific and technical potential, development of currency and financial credit systems. Furthermore, Ukraine possesses unique natural resources, has an advantageous geographic location, qualified and relatively low-cost labor available, cooperates with highly-developed European

countries, and is developing such industries as metallurgical, chemical, agricultural, high technology one, etc. Hence, we consider that this subject is currently topical. All these things contribute to Ukraine's integration into the European Community. The data in Table 1 are indicative of a stable negative foreign trade balance of Ukraine. According to the data of the State Statistical Service of Ukraine in 2019, the volume of foreign trade as compared with 2018 decreased by 34.5% and amounted to USD 2888086.0 thousand (Tbl. 2.5).

Table 2.5

Volume of foreign trade of Ukraine with EU countries (USD thousand)

| Country | Export | | | | | Import | | | | |
|--------------------|---------|----------|---------|---------|-------|--------|--------|---------|-------|---------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Total EU countries | 170029 | 1349628 | 130152 | 1349628 | 15330 | 210691 | 170029 | 1533015 | 17140 | 21069 |
| Austria | 530898 | 361323 | 347167 | 361323 | 3696 | 606282 | 530898 | 369653. | 46509 | 6062 |
| Great Britain | 589211 | 317792 | 367897 | 317792 | 5701 | 692044 | 589211 | 570127. | 70929 | 6920 |
| Greece | 201239 | 159123 | 153776 | 159123 | 2385 | 308467 | 201239 | 238558. | 23356 | 3084 |
| Estonia | 82258.7 | 98048 | 66205 | 98048 | 77499 | 77312 | 82258 | 77499 | 66632 | 77312.6 |
| Cyprus | 283724 | 53481 | 61526 | 53481 | 16922 | 50299 | 283724 | 16922 | 22081 | 50298.8 |
| Germany | 159059 | 1423735. | 132867 | 1423735 | 3945 | 536152 | 159059 | 3945626 | 43184 | 5361 |
| France | 532715 | 453673 | 497949. | 453673 | 8927 | 126921 | 532715 | 892786. | 15305 | 1269 |
| Czech Republic | 772542 | 560756 | 540950. | 560756 | 4797 | 687861 | 772542 | 479718. | 65483 | 6878 |

Source: calculated and composed by author based on (State Statistics Service of Ukraine)

A negative balance is observed in the trade of Ukraine with the following countries: Austria, Great Britain, Greece, Germany, France, and some others. As for the import, its volumes decreased by all commodity categories (Economic Truth, 2019). The most affected sectors are agriculture (decrease in exports by 20 %, imports – by 30%), the chemical industry (decrease in exports by 21%, imports – by 35%), the manufacturing of basic metals and metal products (decrease in exports by 40 %, imports – by 35%).

In the first quarter of 2019 negative balance of foreign trade in commodities amounted to USD 736.5 million. According to the data of the State Statistical Service of Ukraine, in the first quarter of 2019 export of commodities amounted to USD 10.372 billion, import – USD 11.109 billion. As compared with the first quarter of 2016, the export increased by 34.4% (by USD 2.655 billion), import – by 27.3% (by USD 2.384 billion). The negative balance amounted to USD 736.5 million, while in the first quarter of 2018 – USD 1.008 billion (Economic Truth, 2019). The increase in imports in January-October 2019 occurred due to the fact that Ukraine increased its imports of bituminous coal and anthracite 1.8 times in monetary terms, as compared to USD 2.151 billion in the similar period of the previous year. Over this period, the principal supplier of coal was Russia (55.7%), whose deliveries amounted to USD 1.2 billion. The USA ranks second among the suppliers of coal to Ukraine (25.4%, or USD 546.8 million), and the third place is occupied by Australia (5.4%, or USD 116.4 million). Ukraine's import of coal from other countries totaled to USD 289.8 million.

As reported by the State Fiscal Service of Ukraine, during the 10 months the country exported bituminous coal and anthracite to Russia (USD 48.7 million), Slovakia (USD Million 33), Turkey (USD 2.6 million), and other countries (USD 3.9 million). Thereafter the country began to import the coal. In 2018 Ukraine cut its import expenditures for bituminous coal and anthracite as compared with 2017 by 10% – up to USD 1.467 billion.

As regards export of services, in 2018 the share of the provided transportation services (USD 5300545.6 thousand) and services on processing of material resources (USD 1125705.2 thousand) was the highest. This trend has persisted in recent years and is associated with the economically advantageous geographic location of Ukraine increase in the volume of gas transportation and cost of energy products. Services in agricultural sector, state and government services account for the least share in the export. However, a significant predominance of the import of state services over their export is observed (Appendix B).

According to the calculations of the Ministry of Economic Development and

Trade of Ukraine based on data of the National Bank of Ukraine (NBU), the excess of the import share of goods and services over their export share in the period from January to August 2019 was 1.12 (in January-August 2018 – 1.11) (Pokryshka, 2015).

Many present-day researchers state that today the economy of Ukraine faces the problem of lack of reserves to achieve foreign trade positive balance. It is considered that such reserves were used up in 2005. Today the increase in foreign trade earnest is ensured, but production possibilities of leading industries-exporters are completely exhausted. In the days of the Soviet Union trade in commodities was conducted primarily within the united area. Nowadays, Ukraine has a huge potential for selling its own products owing to advantageous geopolitical location and access to sea. However, foreign trade of Ukraine is characterized by the excess of imports over exports, with raw products prevailing. It should be noted that the export of the country mainly consists of products of iron and steel industry (about 40%), chemical industry (about 15%), food industry (about 18 %), and engineering industry (12%) (Kulytskyi, 2018).

As to the import, it mainly consists of products of the oil industry (in the heating season), engineering, and food industry. Starting from March 2018, the largest share in the total volume of imports of goods to Ukraine account for investment products (except for January February 2019, when a seasonal increase in the import of mineral products, in particular, energy products during the heating season, was observed). In its turn, increase in imports of investment goods lays the basis for economic growth in the long term (State Statistics Service of Ukraine). The commodity group “Machines, equipment, vehicles and devices” comprises the largest share in the import of goods to Ukraine (according to the NBU, for the period from January to August 2019 the import volume of engineering products increased by 33.4 %, the share in the total volume increased up to 27.8 % as compared with 25.4 % for the period from January to August 2018)(State Statistics Service of Ukraine).

Development of international trade is one of the prerequisites for Ukraine’s European integration. The EU market is the second most important after the CIS market, and since 2014 EU has become the principal export market for Ukraine. Great

Britain, Spain, Italy, the Netherlands, Germany, Poland, Hungary, and France are the biggest foreign trade partners of Ukraine among EU countries. Consequently, the main problems of international trade in Ukraine are as follows:

- heavy orientation of Ukraine's foreign trade towards the CIS (up to 70%);
- uneven distribution of the country's export potential;
- prevalence of material-intensive equipment in the export of engineering products;
- significant raw material orientation of Ukrainian exports and a considerable dependence of domestic enterprises on the external sales market, which make the volume of foreign exchange incoming very vulnerable to price fluctuations;
- low competitiveness of Ukrainian products, including due to non-conformity with EU standards;
- termination of freight transportation by rail and road across the contact line in Donetsk and Luhansk regions;
- continuation of Russia's trade aggression (the embargo effect in relation to deliveries of Ukrainian food products to its territory, application of tariffs of most favored nation treatment to the Ukrainian export (as a result of unilateral termination of the Agreement on a Free Trade Area within the CIS in relations with Ukraine), illegal prohibition of transit of goods of Ukrainian origin through the territory of Russia to third countries).

Leading Ukrainian scientists point out that 2019 can be considered the year of recovery of the Ukrainian economy. Since this year is characterized by the intensification of consumer and investment demand for goods, a significant share of which was of foreign origin, and the growth of imports of goods to Ukraine (Kulytskyi, 2018). It should be noted that the increase occurred without changing the technological structure of the economy and increasing its level of innovation. It is also worth noting that since 2017 the geographical structure of Ukrainian international trade, which was formed in the previous period, has been preserved. A feature of the modern stage of development is the reorientation of a certain part of international trade relations of Ukrainian enterprises from partners in Russia to business partners in the European

Union and other foreign countries . The EU28 share in the total exports of Ukrainian goods was 40.0 % versus 38.8 % in January-July 2019. The share of CIS countries in exports of goods from Ukraine amounted to 16.2% in January-July 2019 (16.4% in January-July 2018) (Economic Truth, 2019).

Another threatening trend in the current development of foreign trade in Ukraine is the preservation of uneven distribution of the export potential of the country. According to the State Statistics Service for 2019, there was a reorientation in the structure of Ukrainian exports towards increasing the share of commodities produced by the agro-industrial complex compared to commodities of other categories.

Besides, according to the Ministry of Economic Development and Trade, “the Ukrainian exports are primarily raw materials (according to the results of 2018, the share of products of agriculture, metallurgical and chemical industries, and mineral raw materials in its exports was 70%) and consists of intermediate goods with a relatively low technological component — the share of high-tech exports in 2019 was only 5.5 % of the total Ukrainian exports”(Economic Truth, 2019).

The low competitiveness of the majority of Ukrainian producers in the international market is due to the non-conformity of the quality of their products with international standards, outdated material and technical base, high unit costs, etc.

Conclusions to part 2

In the modern context, one of the main conditions to ensure effective functioning of the economy of Ukraine is the development of international trade by expanding the country’s export potential. Correspondingly, Ukraine’s strategic task is the large-scale increase of its presence in external markets. The partial or complete loss of traditional markets, which took place in recent years, has intensified the necessity to search for effective solutions to develop exports of Ukrainian products. Thus, it is necessary to elaborate a range of activities to enter international markets by introducing mechanisms for stimulating innovative activity at the state level. The Medium-Term Government Priority Action Plan to 2020 mentions the foundation of Hi-Tech Office, the purpose of

which is to support and stimulate innovative enterprises and start-ups providing them with financing, necessary consultation services, and technical assistance at all stages of their development: from innovative idea to end product. There is also the need for studying and applying best practices of many developed countries in terms of university-business cooperation: development of joint training programs, internship programs for young entrepreneurs, as well as establishment of public private partnerships for research and innovation.

In recent years foreign trade has evolved into a very important branch of economy for every country. Its influence on the world economic development is increasing. Despite the general upward trend, international trade experiences significant fluctuations due to economic crises, exacerbation of the energy crisis, shortage of raw materials, as well as other problems. Therefore, it is necessary to improve the structure of exports of goods and services from Ukraine to the EU. This involves a gradual increase in the degree of processing of raw materials, expansion of the range of finished products, in particular, high-tech ones. It is worth noting that the problem of low-tech exports is explained by a small amount of high-tech products manufactured by Ukraine. Therefore, it is necessary, first of all, to increase the production of high-tech products with a consequent increase of its share in the export of goods. In this regard the important role is assigned to the state support, which involves not only improvement of legislation and infrastructure, provision of information and consultation services, assistance in participation of national firms in foreign exhibitions and trade fairs but also provision of financial support through granting export credits and their insurance, state guarantees, etc. Despite significant problems in the development of trading relations between Ukraine and the European Union, it is important to note that in terms of export EU markets are potentially attractive as the largest ones among those of Ukraine's neighboring countries. All the above mentioned will help Ukraine significantly improve the prospects for the presence of domestic goods in foreign markets and take a rightful place in the economy of the European Union.

PART 3. WAYS TO INCREASE EFFICIENCY OF STRATEGIC PARTNERSHIP BETWEEN UKRAINE AND THE EU IN TRADE AND ECONOMY

3.1. Priority areas for strengthening the strategic partnership between Ukraine and the EU in trade and economy

The crisis caused by COVID-19 has revealed a number of drawbacks of current economic models, which were focused mainly on obtaining financial result and, to a less extent, in support of public welfare. In July 2020 The UN has published a report (Kalinichenko, 2016), which reveals future world economy for the next decade, based on six economic models, including: circular (Circular Economy) and carbon-neutral (Net-Zero Economy). These models are systemic and global in nature and can create significant opportunities for most sectors of the economy. They are not isolated from each other, but rather complementary, although create different opportunities for governments, businesses and society.

EC President Ursula von der Leyen proposed a European Green Agreement during its second week of work (European Green Deal) - an initiative that calls for decisive and comprehensive action that makes environmental protection and the fight against climate change a top priority EU policy.

European Green Deal is the EU road map for transition to a climate neutral Europe by 2050. Ukraine still lacks a comprehensive analysis of the EGD impact on the formation and implementation of the climate, environmental, transport, agricultural, and energy policy of Ukraine, in the short-term and long-term perspectives (Kondratenko, 2018). On the basis of the general analysis of the EGD components, we reached the following conclusions.

EGD is an external factor for Ukraine (both in form and content). Upon the whole, the EGD is the EU plan to build a new climate-friendly social economic model of development. As an external factor, it shall be viewed in terms of opportunities and threats it poses for Ukraine. The opportunities and threats stem from the EU sectoral plans within the framework of the EGD, as well as from cross-cutting issues. A key

over-arching topic is climate change where the EU established ambitious, specific and measurable goals.

The EGD implementation creates for Ukraine several strategic opportunities for growth. The opportunities are mostly related to rather high degree of Ukraine's integration into the European space in certain sectors. Sector-wise, they are energy sector, finance, agriculture, and industry. For example, the prospects for signing the industrial visa-free will foster the integration of Ukrainian production facilities into new industrial processes of the EU. Expected restrictions related to the sustainability of goods and services placed in the EU market may create new niches for Ukrainian producers by phasing-out imports to the EU from other countries (Stefanishyna, 2020). In agriculture, it may be about the enhancement of organic production, in energy industry it is about the cooperation on hydrogen energy, in finance – it is about the active access to the EU market of public procurements, and access to the EU financial and technical support instruments. In the nature protection, it is about the integration of the protected areas in Ukraine into the NATURA 2000 network, through the creation of special financial instruments .

A separate group of new opportunities for Ukraine is geopolitical. Since the key EGD objective is a climate-neutral Europe, Ukraine's engagement into the process of achieving it is a necessary precondition. Hence, this creates new conducive conditions for Ukraine's integration into the EU in energy, circular economy, transport, environment protection. A climate-neutral Europe creates a conceptual and values basis for cooperation in foreign policy, such as within the Eastern Partnership format, deepening the EU association process. Rather than stemming from Ukraine's geographical position, the opportunities are related with the close international legal and foreign relations, such as the Paris Agreement, environmental conventions, commitments under the Energy Community, Ukraine-EU Memorandum of Understanding on a Strategic Energy Partnership, and the relevant thematic blocks from the EU-Ukraine Association Agreement. 'Homework' is a key to opportunities and a threat mitigation tool. Efficient use of opportunities is closely linked to the current state

and the readiness of Ukraine to accept transformations in a certain area. Efficient domestic reform in the areas related to EU integration and climate change is the precondition to seize the opportunities and reduce the probability or impact of threats posed by the EGD to Ukraine. In particular, in energy sector it is about the liberalization of energy markets (primarily natural gas and electricity), introduction of an efficient regulation for natural monopolies (RAB-regulation and efficiency-oriented regulation), elimination of energy subsidies, implementation of the updated energy Annex to the Association Agreement, synchronization in the development of the national plan in energy and climate, cooperation in hydrogen energy. In industrial policy, it is about the performance of the 'homework' to sign the Agreement on Conformity Assessment and Acceptance of Industrial Goods, full implementation of requirements to the integrated environmental permit. A necessary priority is the efficient approximation of Ukrainian legislation to the EU acquires in all areas set under the Association Agreement (JOIN, 2020).

New opportunities through deeper digitalization. Many opportunities come from the digital advancement in the EU: from simplified settlements of payments and customs procedures to enhanced anti-smuggling efforts, further progress of IT, and access to public procurements in the EU. Should Ukraine synchronize a series of its instruments and practices in transport, such as in smart technologies, the general digitalization policy of Ukrainian government will have a positive effect on the deepening of integration into the EU, in this and other areas (COM, 2020). In this context, cooperation between Ukraine and the EU may acquire more relevance on gaining experience in using smart technologies in settlements, such as in cities.

The issue of increasing Ukraine's exports to the EU market is closely connected with the issue of implementing high European environmental standards. The EU has introduced a whole system of standardization, technical regulation, conformity assessment, which, among other things, includes environmental standards. Sooner or later, the EU will raise the issue of compliance of Ukrainian goods with environmental standards.

This means that Ukrainian companies must be ready to compete with European goods, including from the ecological point of view. That is why the issue of approximation of Ukrainian legislation to EU environmental legislation is very relevant today.

The implementation of environmental directives must be carried out in a timely and effective manner, ensuring the achievement of the goal of a directive, implementing European principles and mechanisms (Agora Energiewende and Sandbag, 2020).

European law requires all EU policies, including trade, to promote sustainable development. Therefore, the EU's trade policy aims to ensure that economic development goes hand in hand with social justice, respect for human rights and high labor and environmental standards.

In this regard, the EU must work with its trading partners to improve social and environmental standards and use trade agreements. That is why EU trade agreements contain special provisions on trade and sustainable development. By the way, such a chapter is also part of the Association Agreement between Ukraine and the EU.

The EU and its trading partners have begun to implement chapters on trade and sustainable development. However, discussions on the effectiveness of such chapters have already begun and, among other things, it is proposed to impose sanctions in case of non-compliance with environmental and labor standards (COM, 2019).

Currently, the main emphasis in the context of the implementation of trade and sustainable development provisions is on the establishment of institutional structures (creation of special advisory groups) and monitoring practices (in particular, the assessment of economic, social and environmental impact of agreements - the so-called ex post evaluation).

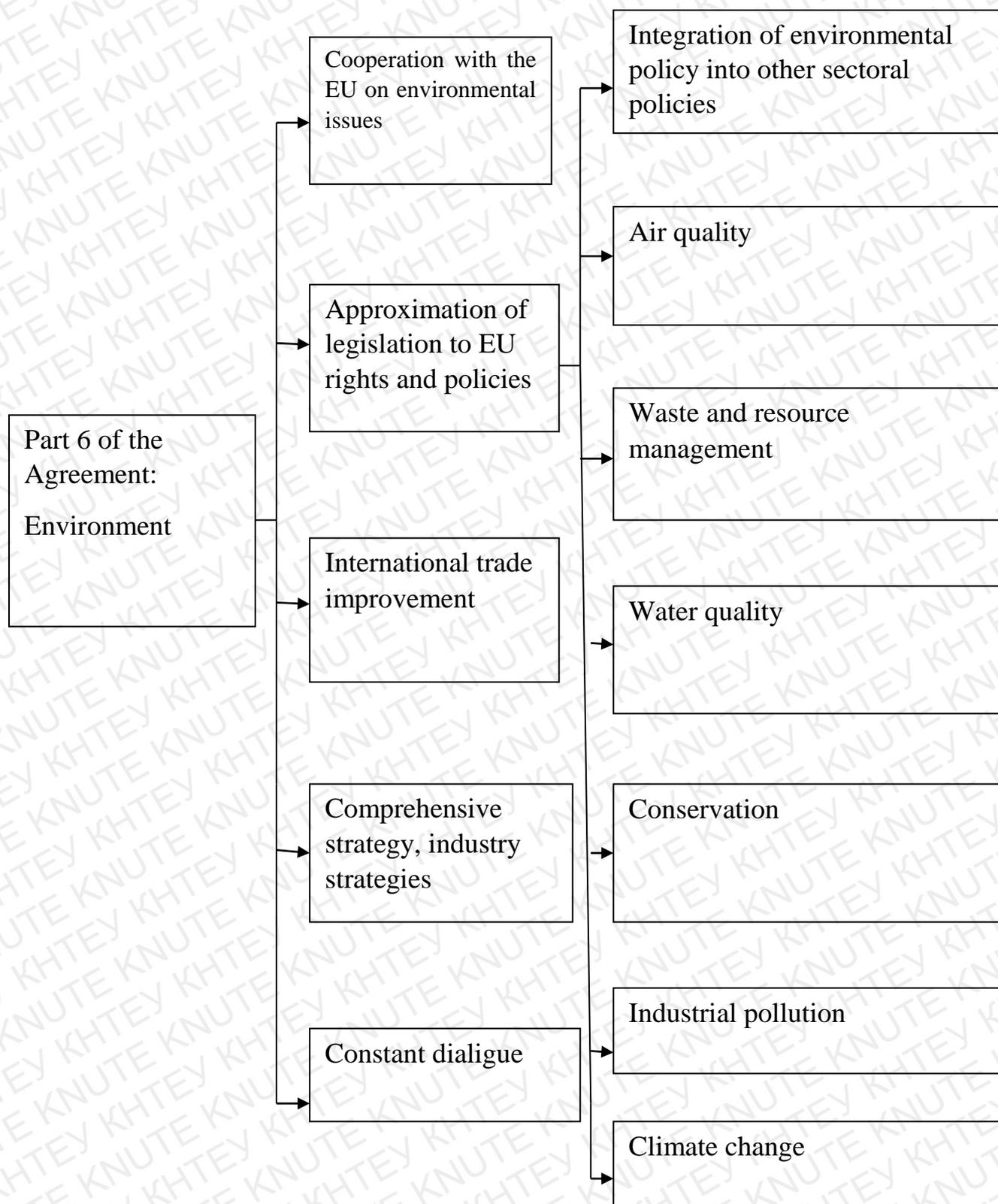


Figure 3.1.Environment in the Association Agreement

Source: compiled by the author

Now Ukraine has several tasks that will help to solve this problem:

1. Clearly enshrine environmental and sustainable development issues in Ukraine's trade policy. The presence of an environmental component in trade agreements cannot depend only on the policies and approaches of the other party, as is currently the case.
2. Develop own tools for assessing the impact of trade, in particular on sustainable development and the environment as a component.
3. Trade policy must be open and ensure a proper dialogue with all stakeholders, including the public.

Another challenge is the country's membership in the World Trade Organization (WTO). Currently, 46 WTO members are participating in negotiations on an Environmental Goods Agreement within the WTO. Its goal is to remove trade barriers for goods that are important for protecting the environment and combating climate change. The EU has already decided on the list of goods, but Ukraine needs to assess the feasibility of joining the negotiation process. Accession to the agreement will allow Ukraine to offer its list of goods - both for export and to attract investment in relevant sectors in Ukraine.

3.2 Projection of the implementation of the proposed measures consequences in bilateral trade and economic relations

The global mankind development is characterized by growing economic convergence of national economies, liberalized and multi-vector international trading activity on the one hand, and intensified use of natural resources on the other. Taking into account the interdependence of environmental and economic components, the buildup of public welfare should take place simultaneously in the framework of both two problems (Nesbit, 2019). However, trade relations and environmental protection

activity should be built harmoniously. But now there are contradictory processes within these relations. On the one hand, the achievement of economic goals is accompanied by increasing pressure on the environment; on the other hand the economic growth leads to implementation of innovative technologies that are able to reduce the intensity of use of natural resources. Just as a trade policy affects the environmental component, the environmental policy causes significant implications within trade relations (Ivashchuk, 2017). Therefore, to ensure harmonized environmental and economic interests of society, particular attention should be paid to the development of the regulatory base for the implementation of trade activity in conjunction with their environmental orientation. These trends actualize the need for consistency of internationalized trade relations and further improvement of environmental legislation at national, regional, and international levels.

Following the signing of the Association Agreement between Ukraine as one Party, and European Union, European Atomic Energy Community, and their member states, as the other Party (hereafter - EU Association Agreement) enhancement of competitiveness has been the main challenge for Ukraine's economic development. Main directions to resolve this problem include establishment of more favorable investment climate, stimulation of innovations, modernization of fixed production assets, and creation of high technology jobs, raising the labor and production efficiency, and implementation of structural and institutional reforms (Annual National Inventory Report, 2019).

Innovation-investment development model should become the foundation for extended social restoration, where the increase in the volumes of output produced and increase in its competitiveness are achieved not by means of additional use of resources, but mainly through intensive production factors, active use of new knowledge and materialized outcome of such knowledge (Nabuurs, 2016). Ukraine needs high pace of GDP growth to overcome poverty and impoverishment of citizens, yet, it should be underscored, that a new development model should be – «green» restoration, «green» growth, «green» development, which is based on the inflow of investments into

renewable sources of energy, environmentally safe production, and «green» technologies.

Energy intensity of Ukraine's GDP remains extremely high in comparison to advanced countries. In 2019 energy intensity of Ukraine's GDP (according to purchasing power parity (PPP) in 2015 prices) was by 2.2 times higher of the respective global ratio, by 2.6 times higher than that of the OECD countries and by 3.2 times higher of 28 EU member states. Similar situation is observed in the GDP carbon intensity level, which, according to 2019 data, exceeds global ratio by 1.9 times, is 2.4 times higher than that of the OECD countries, and 3.3 times higher of 28 EU member states. GDP carbon intensity calculations included only CO₂ emissions, and, of them, only those resulted from fossil fuels combustion.

Table 3.1 presents current level of GHG emissions in «Energy» and «Industrial processes», and their projections. This projections is treated as hypothetic scenario, where the characteristics for most of the technologies in energy resources usage and household consumption, and also at any stage of goods or services production, stay unchanged by 2050, i.e. stay as they were as of 2012. It should be underscored, that technologies are replaced only when useful life of current capacities expires. The cost and efficiency of technologies replacing the outdated ones are compliant with modern level: with the time the cost is decreasing, while efficiency is growing.

Table 3.1

Projections of GHG emissions in «Energy» and «Industrial processes»

| | 2012 * | 2015 * | 2019 * | 2025 | 2030 | 2035 | 2040 | 2045 | 2050 |
|--|-----------|-----------|-----------|------|------|------|------|------|------|
| Emissions, million tons of CO -equivalent | 367 | 265 | 347 | 408 | 455 | 500 | 540 | 570 | 592 |
| Share of 1990 level, % | 44 | 31 | 41 | 48 | 54 | 59 | 64 | 68 | 70 |

Source: calculated and composed by author based on (National Cadaster of

anthropogenic emissions,2019).

In accordance this scenario, under almost unchanged technical parameters of energy technologies, increase in GHG is taking place as growth in economy is assumed to take place primarily in consequence to restoration and growth in the industrial output. The model includes assumption that average annual GDP growth rates over 2019-2050 will amount to 4%, which means that by 2050 GDP will show a fourfold increase. Ukrainian population will shrink from 45.2 millions of people in 2019, to 38.9 million in 2050. Over 2019-2050 oil and gas prices will grow by 35% and 60%, respectively. In addition, the Baseline scenario conditions do not envision enhanced environmental constraints.

The EU has been discussing a possibility of introducing the so called carbon border adjustment mechanism in the recent year. CBA is a tax that will be imposed on carbon-intensive products imported to the EU depending on the volumes of CO₂ emitted in the process of their manufacture. The CBA introduction is provided for by the European Green Deal presented back in December 2019. The European Commission proposes to introduce CBA by 2023 at the latest (Kluwer, 2020).

CBA pursues two main goals:

1. Prevent movement of carbon-intensive production to jurisdictions with less strict environmental standards (carbon leakage), thus facilitating CO₂ emissions reduction at the global scale.
2. Ensure that European producers and importers have equal conditions for competition (European producers pay for their CO₂ emissions under the EU emissions trading system, while importers pay no such fees, which gives them an advantage).

Many specialists believe that CBA is a special fiscal instrument that will increase the EU revenues at the expense of exporters, on the one hand, and a new form of protectionism to safeguard the EU own markets, on the other. According to the estimations of the European Commission itself, annual CBA revenues will amount to around €5–14 billion (Bloomfield,2020).

Why is it important to us? Because the EU is Ukraine's key trade partner. In 2015–2019, the share of the EU in the structure of Ukraine's exports increased from 34.1% to 41.5%. In monetary terms, Ukraine's exports in the same period increased from \$13 billion to \$20.8 billion.

The new trade restrictions that are being created by CBA are barriers to increasing of Ukraine's both exports to the EU and domestic production. Unless our government joins the negotiations and manages to arrange an efficient dialogue with the EU partners, Ukraine will suffer from a drop of currency earnings and budget revenues, as well as decrease in employment and household incomes.

That is the issue is crucial, but Ukraine is demonstrating little discussion about ways of mitigating the negative impact of CBA on its exports. No estimations of the potential effect of CBA for Ukraine have been made. So, the GMK Center team did the math and shared our forecast to initiate a dialogue about what Ukraine can do to protect its exports. Export, by the way, is an important component of the Ukrainian economy which is highly internationalized. In 2019, for instance, the share of exports in Ukraine's GDP reached 32.6% (European Commission, 2020).

In 2019, Ukraine's exports to the EU amounted to €21.1 billion, one third of the amount being a potential subject to CBA. The following are examples of carbon-intensive groups of commodities:

- pig iron, steel semi-finished products, rolled products;
- pipes, metalware and other articles of ferrous metals;
- ores;
- chemical products;
- fertilizers;
- plastics and polymers;
- electricity.

Almost all Ukrainian export commodities are more carbon-intensive than their European analogues. In such conditions, Ukrainian exports turn out to be a good target in terms of CBA taxation. The procedure for its calculation and collection is now only

at the stage of discussion. Various options are possible. For example, taxation of producer-specific direct CO₂ emissions. In this case, the amount of CBA depends on the actual volume of emissions produced by the exporter, and the market price of the greenhouse gas emissions allowances at the time of the product delivery.

Another option might be taxation of the difference between the country-specific sector-average direct CO₂ emissions and the same in the EU. Taxation of both direct and indirect CO₂ emissions is not impossible either. Indirect emissions may include energy-related CO₂ emissions or CO₂ emissions of all the suppliers in the production chain.

GMK Center's estimations build on the following assumptions:

- only direct CO₂ emissions are taxed;
- the price of CO₂ emissions allowances is taken as the projected €22.2 per ton;
- major carbon-intensive groups of products are taken as taxable items (iron ore concentrate, pellets, pig iron, steel semi-finished products, rolled products, ferroalloys, welded pipes, carbamide, plastic).

According to the estimations, export costs of Ukrainian companies supplying their products to the EU might increase to €566.3 million per annum as a result of CBA introduction. Almost 94% of that amount will be a burden of steelmaking and power companies.

What are the possible ways to mitigate the CBA impact on Ukrainian exports? First of all, it's accession to the European Green Deal. Two solutions are possible here:

1. A dialogue on exempting Ukraine from CBA as Ukraine signed a free trade agreement with the EU. In the opinion of many experts, this format is unlikely to be a success as the EU has similar agreements with many other countries which negates the effect of the CBA concept as such. Moreover, the assumption that Ukraine may be exempted from CBA under the Association Agreement implies that Ukraine is supposed to fulfill the same emissions commitments as the EU companies. And this might bring in other risks for our exporters.

2. The EU is now discussing the idea of complete or partial cancellation of CBA for economies that will follow the same decarbonization policy as the EU. This idea may take the form of agreements of equivalence that will determine the conditions of decarbonization for non-EU countries. In that case, Ukraine may hope for special, less strict, conditions of decarbonization and CBA.

In the process of accession to the European Green Deal, different starting points of Ukrainian and European companies should be taken into account. Environmental projects of European companies have been receiving support from the European Commission in the form of grants, subsidies, interest refunds in the recent 10 to 20 years. Ukrainian companies, first of all, implemented environmental projects with no available government instruments of financial support. Secondly, they had and have no such access to financial resources as their European competitors.

Therefore, the deadlines for achieving carbon neutrality should be extended for Ukraine in comparison to European producers. In addition, accession to the European Green Deal should open access for Ukrainian companies to financial resources provided by European funds.

Another opportunity for mitigating the CBA impact on Ukrainian exports would be exempting Ukraine as a developing economy. The EU is indeed discussing the idea of exempting companies from developing countries from CBA, as this tax threatens their sustainable development.

Ukraine is a developing economy based on the following criteria:

- according to the IMF, Ukraine ranks 112th in the world in the GDP per capita index (when adjusted by purchasing power parity);
- among all European countries, Ukraine ranks 2nd in the UN Human Development Index, preceded only by Moldova;
- according to Growth from Knowledge, Ukraine is the poorest country in Europe;
- in the World Economic Forum's Global Competitiveness Report, Ukraine ranks 58th out of 141 world economies;

- in the Legatum Prosperity Index, Ukraine ranks 96th out of 167 countries;
- in the Index of Economic Freedom, Ukraine ranks 134th out of 180 countries.

Whatever option is chosen, the dialogue should be started right away. The EU is already overrunning Ukraine in terms of decarbonization. This gap will only be expanding in the future, thus putting barriers to access of Ukrainian products to European markets.

Conclusions to part 3

Europe's efforts to go climate-neutral by 2050 could be undermined by a lack of ambition by our international partners. This would mean the risk of carbon leakage. This occurs when companies transfer production to countries that are less strict about emissions. In such a case, global emissions would not be reduced. This new mechanism would counteract this risk by putting a carbon price on imports of certain goods from outside the EU.

First of all, it will concern the import of steel, aluminum, cement, etc., most likely – electricity.

The tax will be attached to tax greenhouse gas emissions in the country where the goods will be produced. Tax will be charged at the moment of goods crossing the border with the EU.

On the one hand, it prevents unfair competition with European goods, and on the other hand, it forces the EU's trading partners to introduce carbon taxation mechanisms similar to European ones. It should be adopted no later than the second quarter of 2021 and introduced by 2023. The initiative is currently in the active phase of public consultation.

Ukraine's losses due to the introduction of the EU carbon border adjustment mechanism are currently not accurately calculated. However, given the fact that about 50% is exported manufactured goods to the EU, we can predict that it will significantly hurt the Ukrainian economy. For example, according to estimates by the Boston

Consulting Group (BCG), if this mechanism is introduced, Russia's export losses will range from \$ 3 to \$ 4.8 billion annually.

Only develop "green" energy and meet EU standards. Ukraine's energy system needs effective solutions. Today traditional capacities need to be upgraded. It is necessary to prepare for the introduction of a carbon border adjustment mechanism now, in particular to introduce a tax on CO2 emissions or domestic trade in emission quotas in Ukraine, as well as transparent regulation and the establishment of clear rules for the energy market.

CONCLUSIONS

Development of trade and economic Ukraine's relations with the EU in the near future depends on the balanced policy of the government to stimulate own production and investment activities with a wide range financial and economic and organizational and legal mechanisms. The strategic partnership itself, as a foreign policy tool, can serve to those in power who are faithful to both liberal and realists approach. Its essence lays in cooperation between the subjects that share the same goals. Strategic partnership is the geopolitical interdependence, sometimes – geographical, cultural and historical closeness of the two states. In some cases, the search for strategic partners, driven by the desire of the state, become a regional or world leader. Ukraine has chosen the path of integration to European Union, which is one of the largest associations of the world and at the same time one of the largest world markets. However, the requirements set by the EU for the quality of products to Ukrainian companies, to meet it will not be easy. However, trade and economic cooperation with Ukraine and the EU is extremely important, so to strengthen this cooperation. Ukraine must ensure the quality and competitiveness of its goods and services.

Development of international trade is one of the prerequisites for Ukraine's European integration. The EU market is the second most important after the CIS market, and since 2014 EU has become the principal export market for Ukraine. Great Britain, Spain, Italy, the Netherlands, Germany, Poland, Hungary, and France are the biggest foreign trade partners of Ukraine among EU countries. Correspondingly, Ukraine's strategic task is the large-scale increase of its presence in external markets. The partial or complete loss of traditional markets, which took place in recent years, has intensified the necessity to search for effective solutions to develop exports of Ukrainian products. Thus, it is necessary to elaborate a range of activities to enter international markets by introducing mechanisms for stimulating innovative activity at the state level.

European Green Deal is the EU road map for transition to a climate neutral Europe by 2050. Ukraine still lacks a comprehensive analysis of the EGD impact on the formation and implementation of the climate, environmental, transport, agricultural, and energy policy of Ukraine, in the short-term and long-term perspectives . The EGD implementation creates for Ukraine several strategic opportunities for growth. The opportunities are mostly related to rather high degree of Ukraine's integration into the European space in certain sectors. In the process of accession to the European Green Deal, different starting points of Ukrainian and European companies should be taken into account. Environmental projects of European companies have been receiving support from the European Commission in the form of grants, subsidies, interest refunds in the recent 10 to 20 years.

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APPENDICES

Appendix A

Facts and figures about The EU-Ukraine relations

| Direction of reform programme | Characteristic of direction |
|-------------------------------|--|
| STRONGER GOVERNANCE | <p>-A nationwide decentralization programme (€90 million) providing advice and support to improve the transparency and accountability of local and regional authorities and enhancing local administrative centres. 27 administrative centres have opened in all Ukrainian oblasts.</p> <p>-A public administration program (€104 million) aims to embed a new generation of civil servants, reorganizing government structures to mirror EU standards and developing best practice in policy making and advancing key sector reforms.</p> <p>-An anti-corruption program (€15 million) is supporting the newly established anti-corruption institutions, strengthening parliamentary oversight and capacities of civil society and independent media to contribute to the fight against corruption. -A program developing the private sector (€110 million) and fostering Ukraine's economic recovery through technical assistance to improve the legislative framework for SMEs and supporting the set-up of business advice centres in the regions that facilitate access to finance.</p> |

| Direction of reform programme | Characteristic of direction |
|-------------------------------------|--|
| <p>STRONGER CONNECTIVITY</p> | <p>-The EU has provided support for the government of Ukraine in establishing an independent energy regulatory authority and new gas and electricity laws to improve efficiency in the energy sector.</p> <p>- In close cooperation with partners and financial institutions such as EIB, EBRD and the World Bank, the EU continues to support the modernization of Ukraine’s gas transport system, reconstructing parts of the east-west transit pipelines.</p> <p>-The European Union is the largest donor to the new Safe Confinement above the destroyed Unit 4 of the Chernobyl nuclear power plant, which was erected in November 2016.</p> <p>-The EU has provided support for an ambitious transport agenda, contributing significantly to the AA and the DCFTA. Transport is the backbone of increased movement of people and goods between Ukraine and the EU and will foster trade and economic growth.</p> |
| <p>STRONGER ECONOMY</p> | <p>-The Association Agreement including its Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017, although parts of the agreement have been provisionally applied since 1 November 2014 and the DCFTA since 1 January 2016. The DCFTA is a major milestone in bilateral trade relations offering new economic opportunities to both sides.</p> |

| Direction of reform programme | Characteristic of direction |
|-------------------------------|--|
| STRONGER ECONOMY | <p>The agreement triggers reform of Ukraine’s legal framework, aiming to align it with that of the EU. Ukrainian businesses receive stable and predictable preferential access to the largest single market in the world, with over 500 million consumers. And EU businesses are able to benefit from easier access to the Ukrainian market, building new relationships with suppliers and partners.</p> <ul style="list-style-type: none">- In 2018, exports from Ukraine to the EU increased by 27% and Ukrainian imports from the EU by about 22%, while overall trade increased by 24%.-The reforms that are anchored in the AA/DCFTA will improve the overall business climate in Ukraine, including curbing corruption and eliminating protectionist measures, which will in turn increase investor confidence.-Temporary ‘Autonomous Trade Measures’ for Ukraine were introduced in October 2017, topping up the quantities of agricultural products Ukraine can export to the EU without paying customs duties and accelerating the elimination of customs tariffs for several industrial products.-The EU has supported Ukrainian authorities in establishing an independent regulatory authority for electronic communications, as well as in improving |

| Direction of reform programme | Characteristic of direction |
|-------------------------------|---|
| STRONGER SOCIETY | <p>-Ukraine is one of the largest beneficiaries in the Eastern Partnership region of the Erasmus+ program, with more than 5,200 Ukrainian students and education staff benefitting from the Erasmus exchange program in the period up to summer 2019.</p> <p>-The EU supports a €10 million civil society program that aims to reinforce its capacity to support and monitor the reform program that is underway.</p> |

Appendix B

Structure of export-import by types of services in 2015–2019 (USD million)

| Service description | Export | | | | | Import | | | | |
|---|--------|------|-------|-------|------|--------|------|------|------|------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Services on processing of material resources | 13343 | 1078 | 1125 | 1078 | 112 | 51248 | 6341 | 5124 | 5676 | 5299 |
| Repair and technical maintenance services | 29824 | 1922 | 2318 | 1922 | 231 | 10651 | 8577 | 1065 | 908 | 8577 |
| Transportation services | 61019 | 5263 | 5300 | 5263 | 530 | 13765 | 1153 | 1376 | 989 | 1153 |
| Travelling | 22804 | 2009 | 2052 | 2009 | 205 | 68102 | 6107 | 6810 | 603 | 6107 |
| Building | 23196 | 2916 | 3892 | 296 | 389 | 14798 | 4026 | 1479 | 614 | 4026 |
| Insurance | 4481 | 4611 | 5374 | 4615 | 537 | 84076 | 7401 | 8407 | 119 | 7401 |
| Financial activity | 22210 | 1908 | 8314 | 1908 | 831 | 80034 | 8747 | 8003 | 561 | 8747 |
| Royalty | 9750 | 5096 | 2937 | 5096 | 293 | 45048 | 3015 | 4504 | 765 | 3015 |
| Services to individuals, recreational and cultural services | 133439 | 1073 | 11255 | 10785 | 112 | 5124 | 6341 | 5124 | 5678 | 5299 |
| State services | 29824 | 1922 | 5231 | 1922 | 231 | 1065 | 8577 | 1065 | 908 | 8577 |

Source: calculated and composed by author based on State Statistics Service of Ukraine