Analyses OSW

CENTRE FOR EASTERN STUDIES 18.03.2015 www.osw.waw.pl

The collapse of Ukraine's foreign trade

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On 17 March, the State Statistics Committee of Ukraine published data on the country's foreign trade, which show that in January this year the export of Ukrainian goods to EU markets fell by 31%, and to Russia by 60% (compared to last January). The total of Ukrainian goods exports in January fell by 31%, while imports decreased by 33.4%. The largest decline in exports was recorded by the Donetsk and Lugansk oblasts, 64.3% and 96.6% respectively, as work in many metal works and coal mines has been halted because of the war.

Commentary

- The data for January indicates a sudden worsening of the negative trends in Ukrainian foreign trade since July 2014, which dramatically accelerated towards the end of last year (in December exports of goods fell by 32% and imports by 34.4%). During 2014 Ukraine's goods exports fell by 13.5%, and its imports by 28.3%. The declines in 2014 corresponded primarily with the shrinking trade with Russia; imports from that country fell by 45%, exports by 35%. During this period, exports to the EU increased by only 2.6% (they make up 31.5% in Ukraine's export structure), including to Poland by 4%, despite the unilateral granting by the EU last April of so-called autonomous trade preferences, under which many Ukrainian goods are covered by zero customs duty. Although Ukraine recorded a positive balance of foreign trade turnover of US$3.8 billion last year, this is solely due to the positive effect of imports falling faster than exports.
- The main reason for the decline in exports from Ukraine is the collapse of industrial production in the war-torn Donbas region, which had previously accounted for a quarter of the Ukrainian exports. The decline in coal production (-22%) and steel (-17%) has led to the collapse of the steel industry, whose share in total exports from Ukraine still amounted to 25% in 2013. Other causes include a number of trade restrictions imposed last year by Russia on products from Ukraine, as well as growing competition and falling prices for steel and iron ore on world markets. The decline in exports to the EU has also been caused by the insufficient reorientation of Ukrainian production to EU markets; not all Ukrainian producers have managed to adapt to the requirements of the EU standards, or build up a network of contractors. At the same time, the data on industrial production and exports from the Donbas (although these are only estimates because accurate statistics cannot be recorded) attest to the fact that the potential decline has been, or soon will be, exhausted.

- The collapse of Ukrainian exports will worsen the economic condition of Ukraine and lower its macroeconomic indicators. The Ukrainian economy has traditionally been oriented to foreign markets; in recent years exports made up around 50% of GDP. Lower revenues from exports have to a certain extent been covered by the devaluation of the Ukrainian currency, but at the same time, it raises the cost of goods which are imported or which contain ingredients imported from abroad; this has been exacerbating the impoverishment of the general public, and with it the already limited domestic demand.