

A year of war in Ukraine's foreign trade

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The Russian invasion has led to a collapse in Ukraine's trade, in particular foreign trade. It has also caused major changes in the geographical structure of its imports and exports. Due to the Russian blockade, Ukrainian ports have lost their status as the country's main export gateway. Rail and road transport has gained in importance, as since 24 February 2022 Ukraine has used them to ship and import most of its goods via the territory of its western neighbours. As a consequence, the European Union has consolidated its role as Kyiv's main trade partner in both exports and imports, while Poland – for the first time in history – has become the leader in Ukraine's trade exchange.

General statistics

2022 saw a very serious decline in Ukraine's exports (-35.1%) and imports (-24.2%). Aside from the reasons directly linked to the war (Ukraine losing a portion of its territory, and the damage caused to its industrial facilities in export-oriented sectors), the main cause of this decline was the blockade of Ukraine's Black Sea ports, through which Kyiv had shipped around two thirds of its exports before the Russian invasion. Although the blockade was partly lifted in August 2022, this only covered agricultural produce rather than Ukraine's other key exports, such as iron ores and metallurgical products.

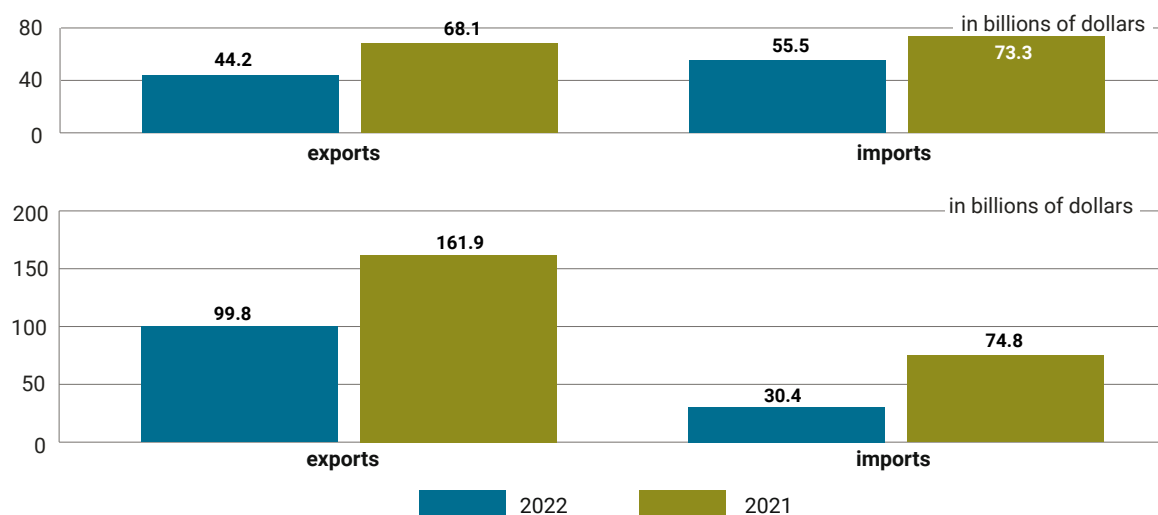
It should be noted that in practice the impact of the hostilities on Ukraine's export is more serious than what the official cumulative statistics for 2022 show because they take the two pre-war months of January and most of February into account; in that brief period, Ukraine recorded very favourable data resulting from the post-pandemic economic revival.

The dynamics of foreign trade

The Russian aggression has caused a rapid drop in Ukraine's trade: as early as March 2022 its exports fell by 49.5% and its imports by as much as 70.7%. Another reason behind this decline was the fact that before the war Russia and Belarus had been important economic partners for Ukraine, especially regarding the import of fuels. After 24 February 2022, Ukraine's trade relations with Russia collapsed, and the figures reported in the annual statistics mainly relate to trade carried out in January and February. The same applies to Belarus, although in this case the reduction in bilateral trade stretched over a longer period of time.



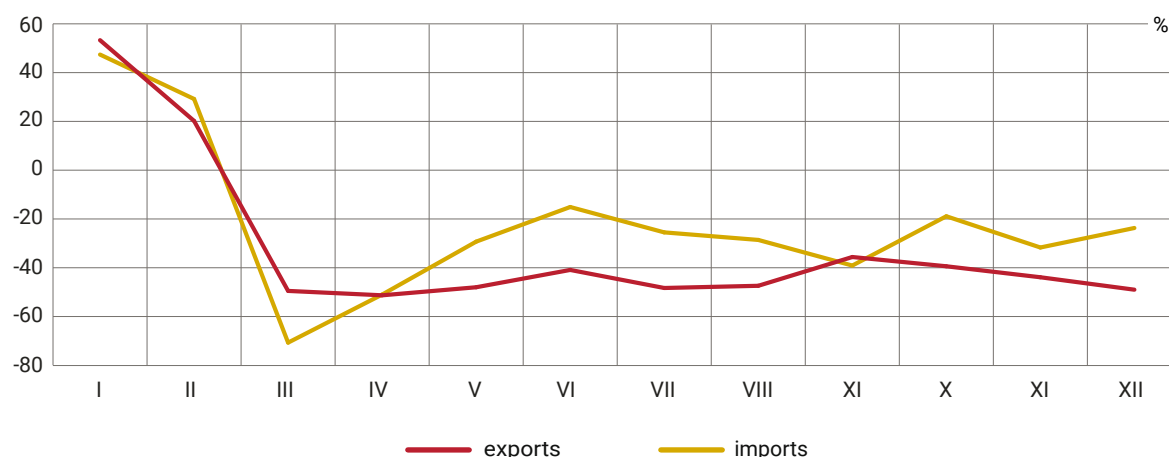
Chart 1. Comparison of Ukraine's commodity exports and imports in 2021 and 2022



Source: State Customs Service of Ukraine.

Although the import situation partially stabilised over subsequent months (in December 2022 Ukraine's imports fell by 23.7% compared to December 2021), it continues to be very difficult with regard to exports (-49% in December 2022 vs. December 2021).

Chart 2. Monthly exports and imports dynamics in 2022

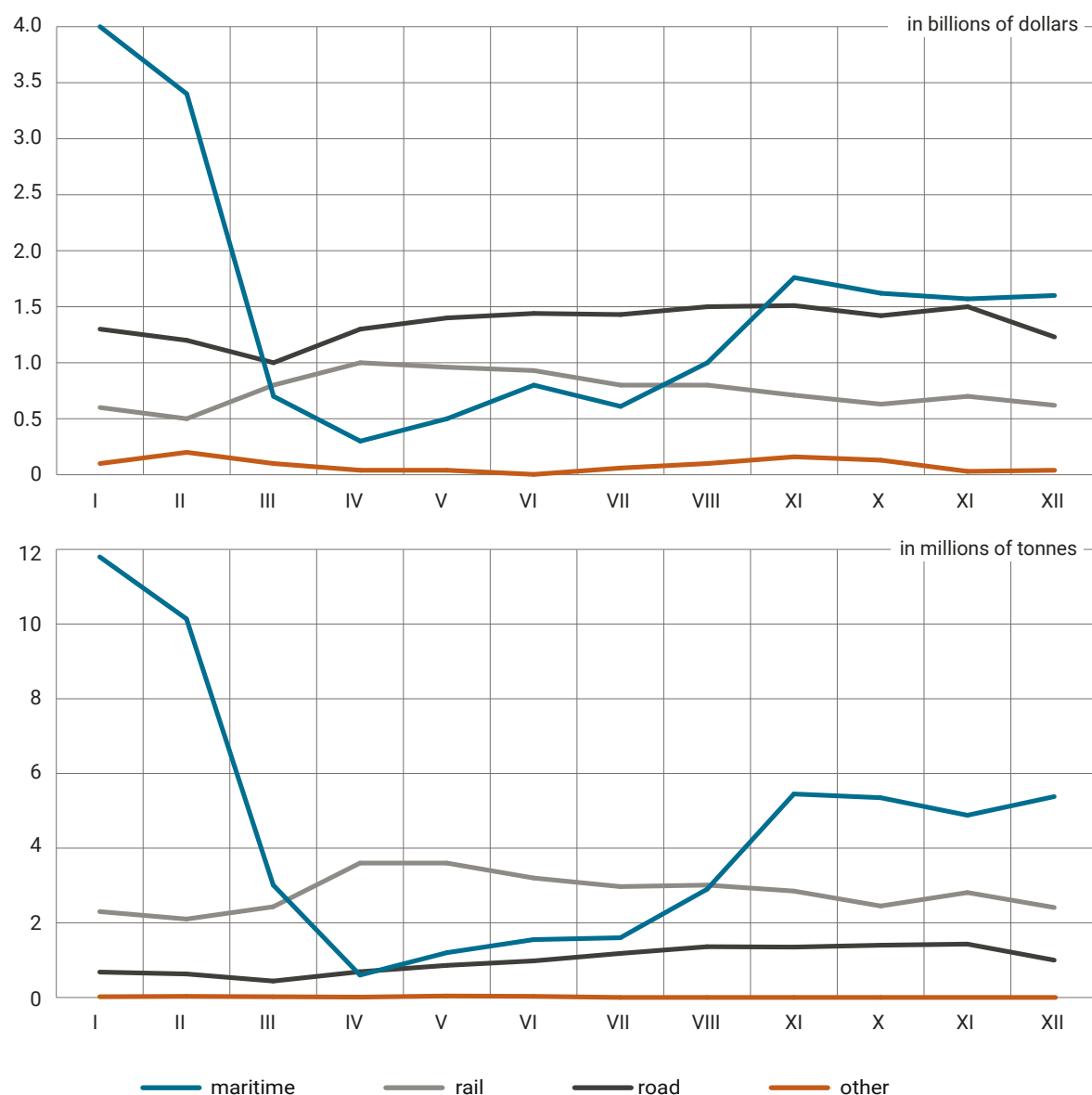


Source: State Statistics Committee of Ukraine, State Customs Service of Ukraine.

Transport issues

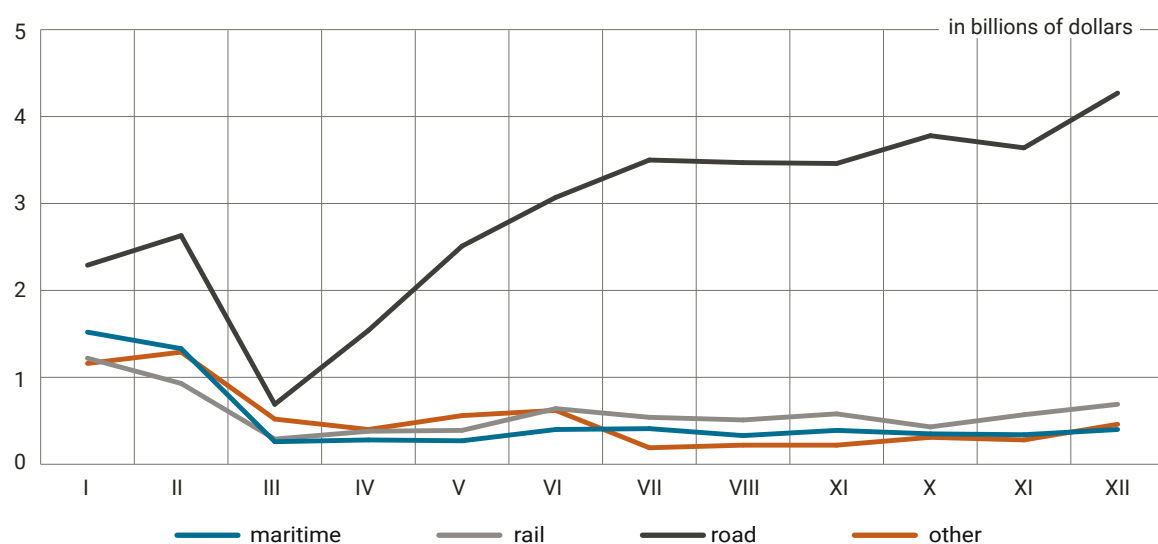
Before the war, maritime transport had been the main export route for Ukrainian commodities in terms of both value and volume. Ukraine attempted to circumvent the blockade which Russian troops had organised in the first days following the attack by increased use of its ports on the Danube. However, it was only following the opening of the 'grain corridor' in August 2022 that Kyiv managed to restore the significant role of maritime transport. It should be noted, though, that in December 2022 the volume of goods transported in this manner was 60% smaller than in January. Following the war's outbreak, road and rail transport gained ground, and Ukraine's land border crossings with EU countries (mainly Poland) became the main routes for Ukrainian exports.

Chart 3. Monthly commodity exports in 2022 according to means of transport



Source: Ministry of Infrastructure of Ukraine.

Chart 4. Monthly commodity imports in 2022 according to means of transport



Source: Ministry of Infrastructure of Ukraine.

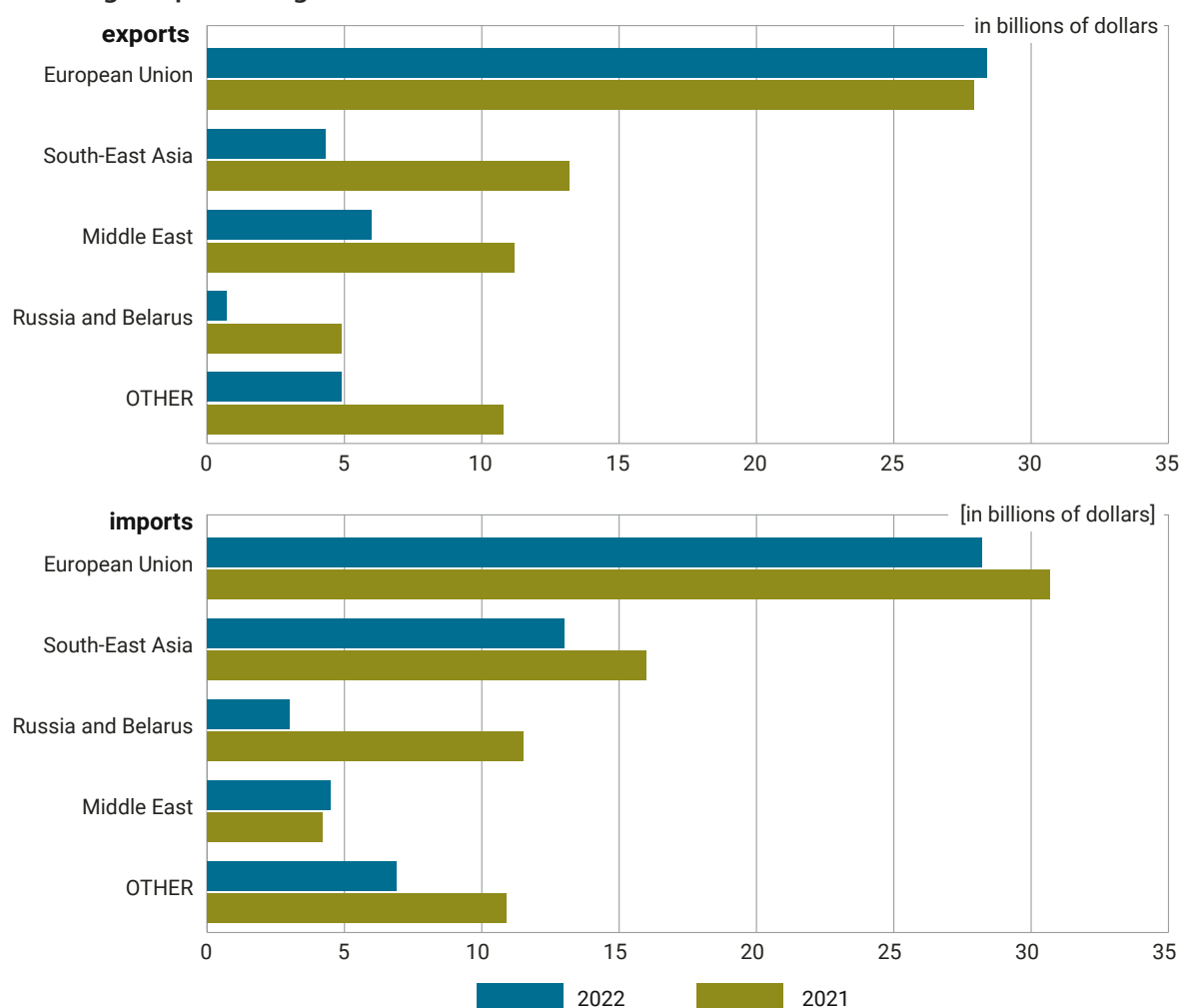
The importance of seaports to Ukraine's imports was not as great as to its exports (they accounted for around 25% of the entire volume of imported commodities). Following the Russian invasion, road transport consolidated its dominant role: starting from July 2022, around 75% of Ukrainian imports were transported by road, and this proportion continued to rise over subsequent months.

The regional division

The scale of changes Ukraine has recorded in its trade exchange varies for specific geographical regions. Ukraine's exports to the European Union rose by 1.7%, and the EU has consolidated its status as the main recipient of Ukrainian goods (EU member states now account for 64% of Ukraine's exports). In trading with other regions of the world, drops of between 20 and 90% have been recorded. The situation is slightly different when it comes to Ukraine's imports: the EU accounts for 51% of the goods imported by Ukraine, and falls were recorded for all other regions of the world apart from the Middle East.

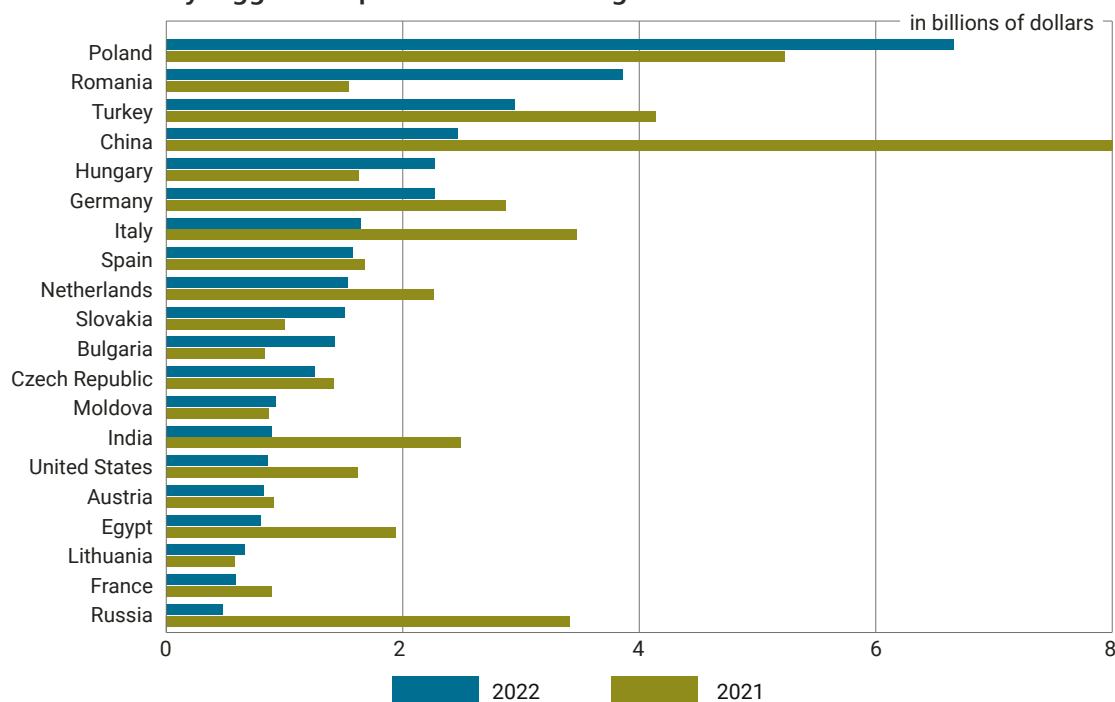
The Russian invasion resulted in the blockade of Ukraine's Black Sea ports and the occupation of its ports in the Sea of Azov. These factors, as well as other negative developments, have led to a major decrease in Ukraine's exports to most of its biggest former trade partners, in particular China (-69%) and India (-64%). Alongside this, the blockade has pushed Ukraine to find alternative markets, which has resulted in increased exports to all of its neighbours: an increase of 150% was recorded in exports to Romania, of 51% to Slovakia, 40% to Hungary and 27% to Poland.

Chart 5. Comparison of Ukraine's commodity exports and imports in 2021 and 2022 according to specific regions



Source: State Customs Service of Ukraine.

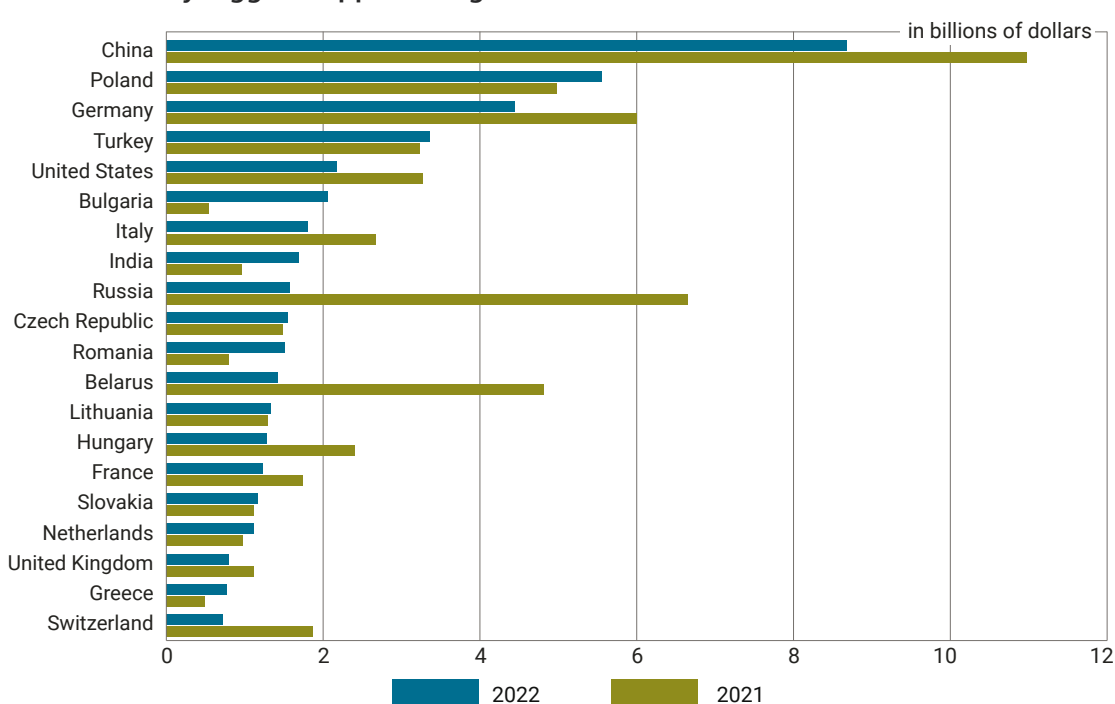
Chart 6. The twenty biggest recipients of Ukrainian goods in 2021 and 2022



Source: State Customs Service of Ukraine.

In the sphere of imports the situation is slightly different. Although in 2022 the volume of imported goods was smaller in 2021, the recorded decrease is not as serious as in the case of exports. This was because Ukraine mainly imports highly processed goods, which can more easily be transported by road. As a consequence, in 2022 Poland outstripped China to become Ukraine's biggest trade partner globally.

Chart 7. The twenty biggest suppliers of goods to the Ukrainian market in 2021 and 2022

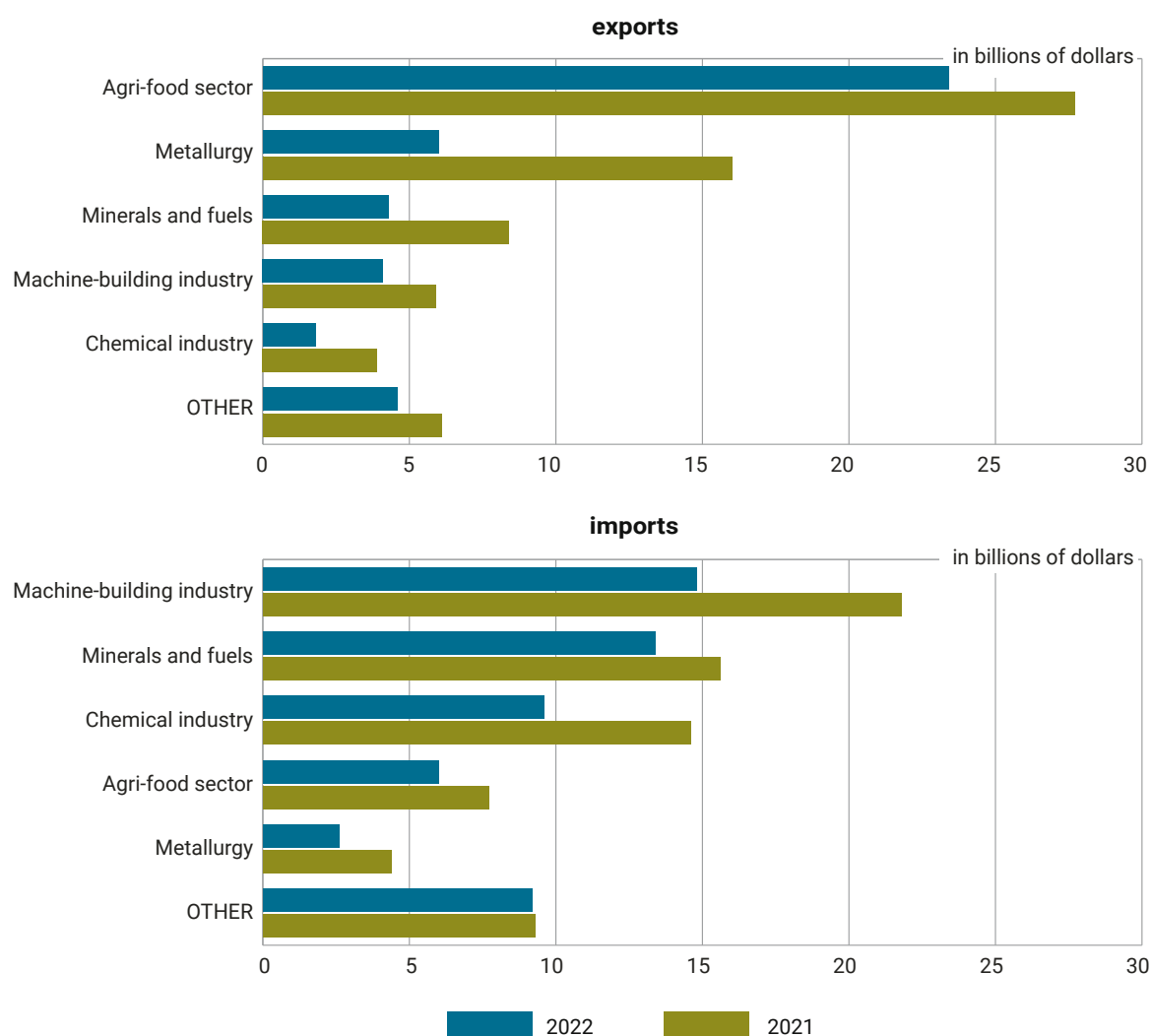


Source: State Customs Service of Ukraine.

Ukraine's foreign trade according to specific categories of goods

The Russian invasion has curtailed Ukraine's exports in all sectors of its economy. Although this impact was relatively minor in the case of agri-food products (down 15.5%), in other sectors, which are of major importance to Ukraine's export activity, the recorded decrease was very significant: the sale of metallurgical products fell by 62%, while the sale of minerals went down by 49%. In 2021, these two categories of goods accounted for 24% and 12% of Ukrainian exports respectively.

Chart 8. Comparison of Ukraine's exports and imports in specific sectors of the economy in 2021 and 2022

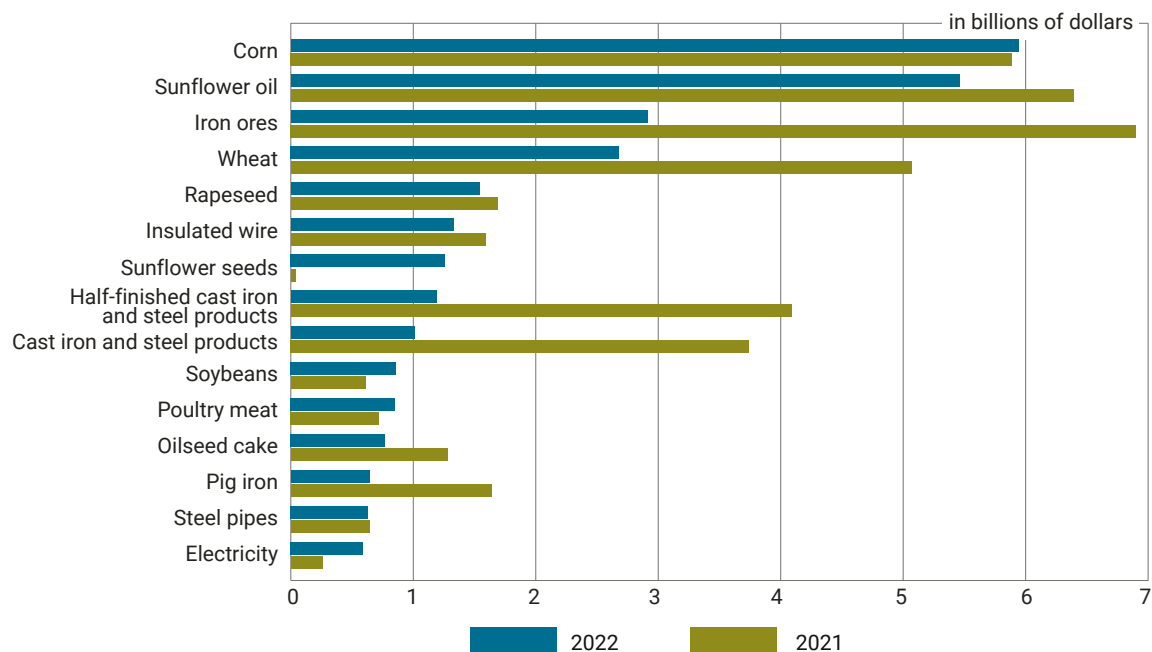


Source: State Customs Service of Ukraine.

Due to the establishment of the 'grain corridor', the sale of the most important products manufactured by the agri-food sector (such as sunflower oil) fell to only a small degree, while its value actually rose slightly (for instance, in the case of corn).

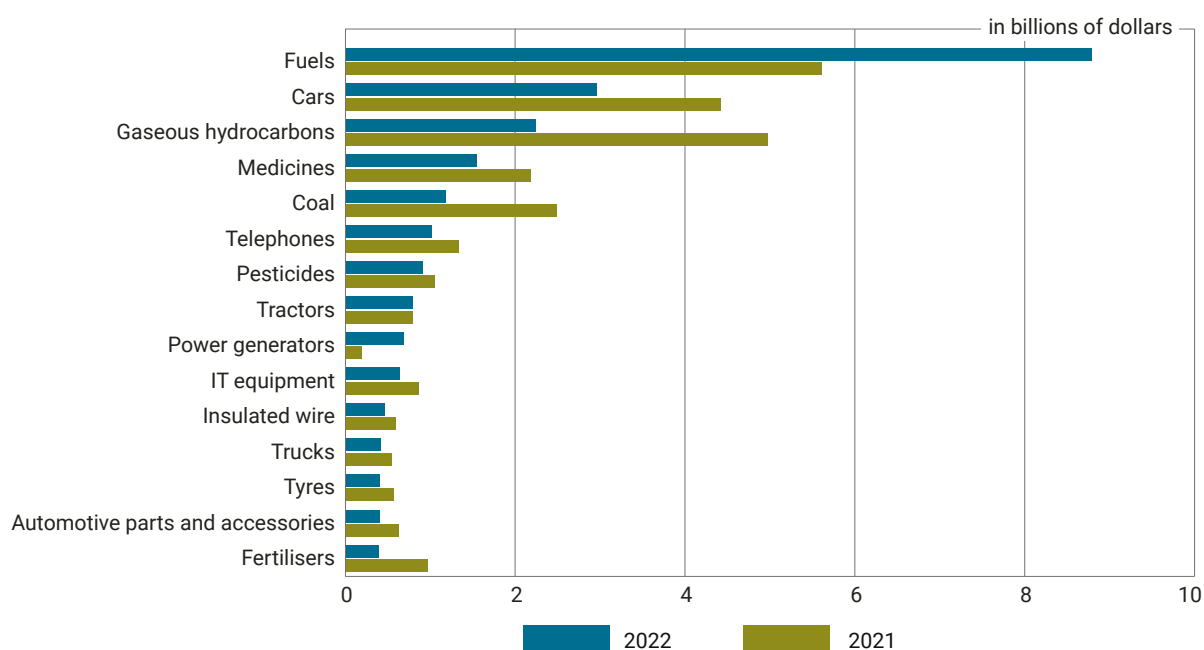
Falls in imports were recorded in all of the major commodity categories, with two exceptions directly linked to the war. The destruction of Ukraine's only refinery has pushed Kyiv to increase its import of fuels from the EU (prior to 24 February 2022 Ukraine had imported most of these products from Russia and Belarus). Furthermore, the massive rocket fire campaigns targeting Ukrainian electricity generation infrastructure, which have been ongoing since October 2022, have caused a rapid increase in the import of power generators.

Chart 9. Comparison of the fifteen most important Ukrainian export commodities in 2021 and 2022



Source: State Customs Service of Ukraine.

Chart 10. Comparison of the fifteen most important Ukrainian import commodities in 2021 and 2022



Source: State Customs Service of Ukraine.

Outlook

It seems that irrespective of whether the present intensity of the hostilities continues throughout the rest of 2023 or whether a partial freezing of the conflict arises, no major changes in Ukraine's foreign trade patterns in comparison to 2022 should be expected. As long as the war continues, no economic recovery which could boost Ukraine's exports and imports is likely.

In the best-case scenario, the present forecasts spell an insignificant increase in Ukraine's GDP at the end of 2023. It is not known whether the 'grain corridor' will continue to exist because the official agreement which established this initiative will expire in mid-March. Should Russia block its extension, which is unlikely, this would deliver a serious blow to Ukrainian agri-food exports. On the other hand, it would theoretically be possible to expand this corridor to include other commodities (mainly metallurgical products and iron ores), which is what Kyiv is strongly advocating. However, due to Russia's opposition to this proposal, at present the chance of this scenario materialising is minimal.