



Ukraine in the Global Economy

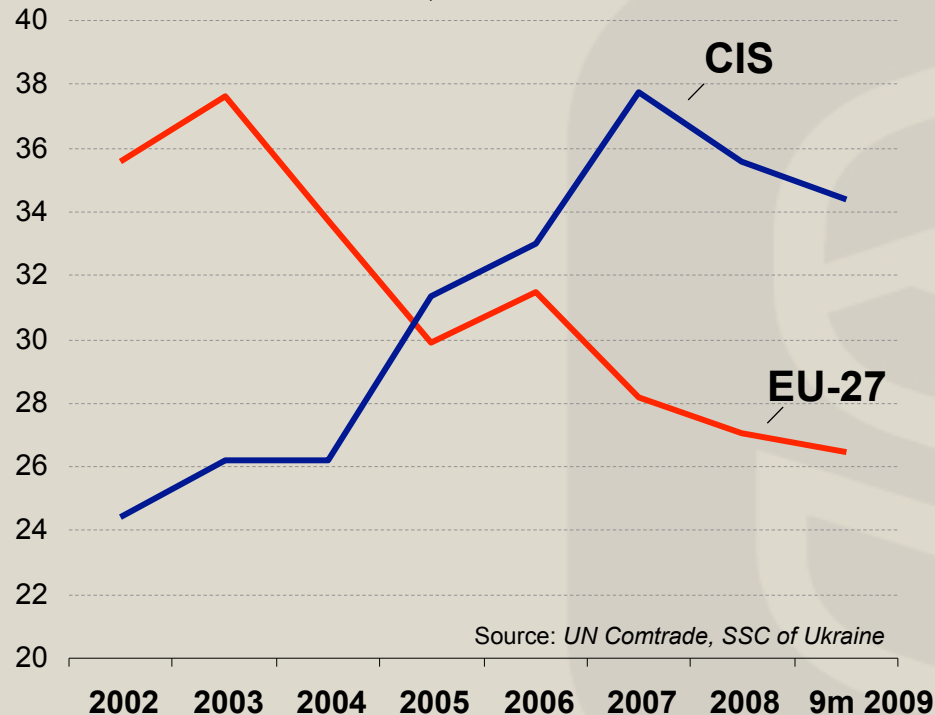
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SigmaBleyzer, The Bleyzer Foundation

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Ukrainian Exports to Key Trading Partners

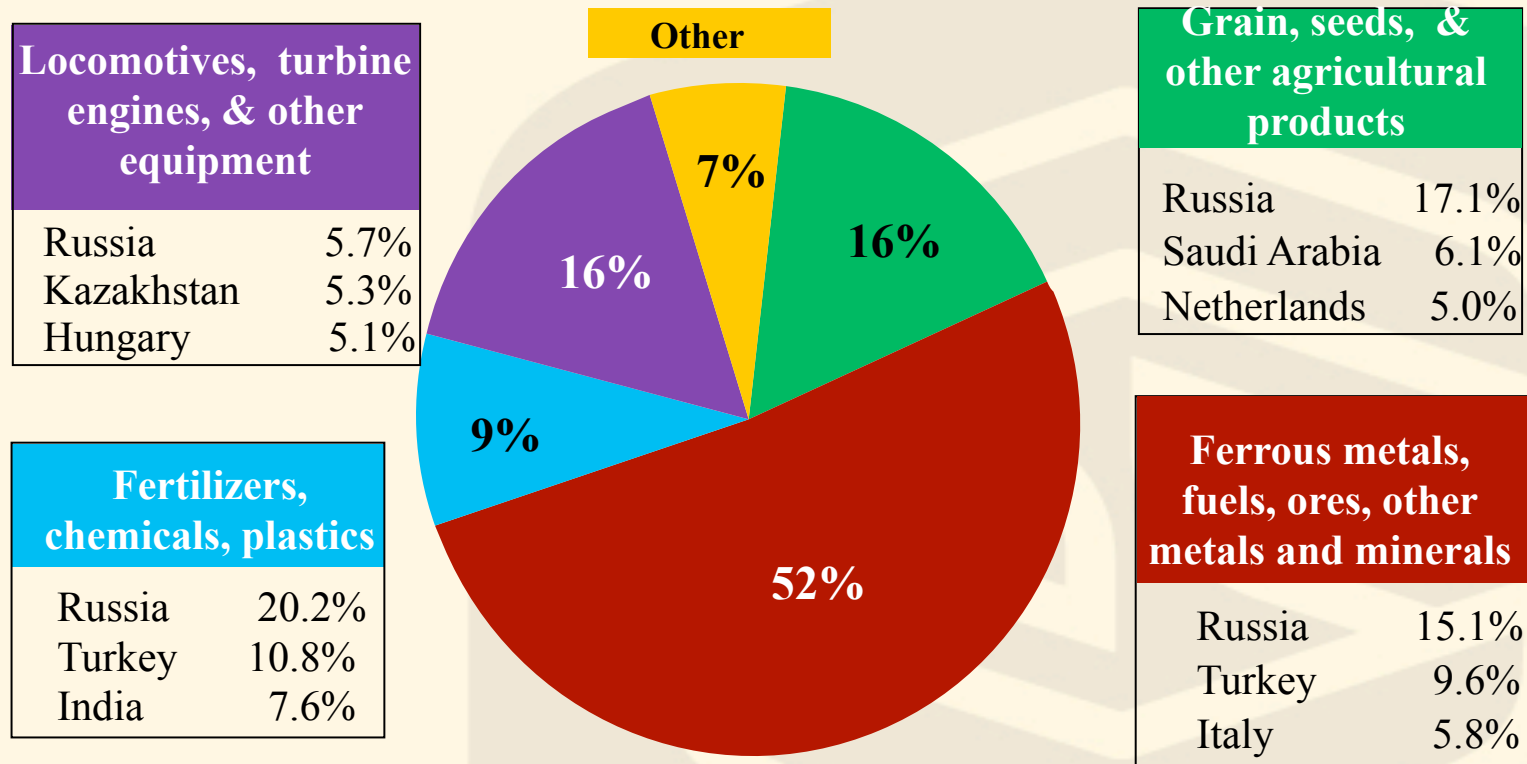
Ukraine's Merchandise Exports to EU and CIS Countries, % of total



- ▶▶ Ukraine wants closer integration with the EU, and has aspirations to become an EU member.
- ▶▶ However, Ukraine has been reducing its trade relations with the EU.
- ▶▶ The share of Ukraine's exports of goods to EU-27 declined from 38% in 2003 to about 26% in 9m 2009.

▶▶ The difference was taken up by exports to CIS countries (principally Russia), whose share grew from 25% in 2002 to 35% in 2007-2009.

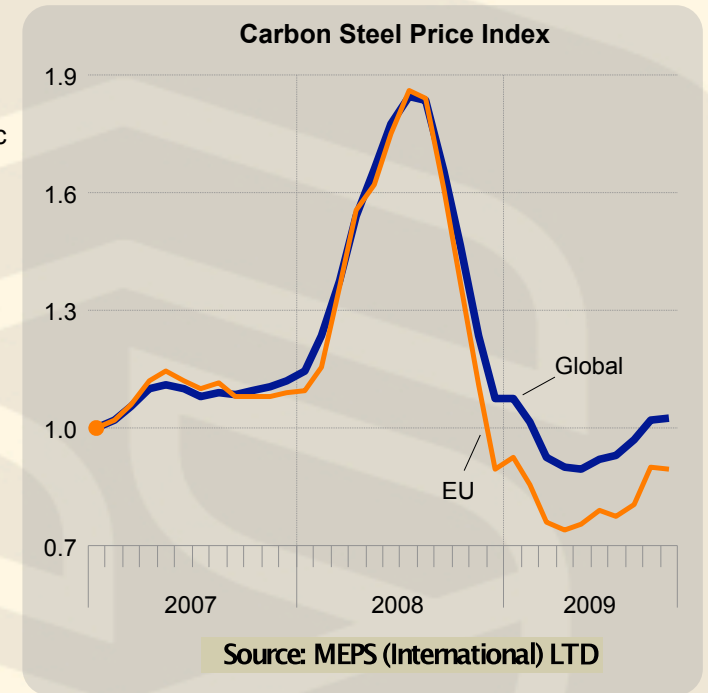
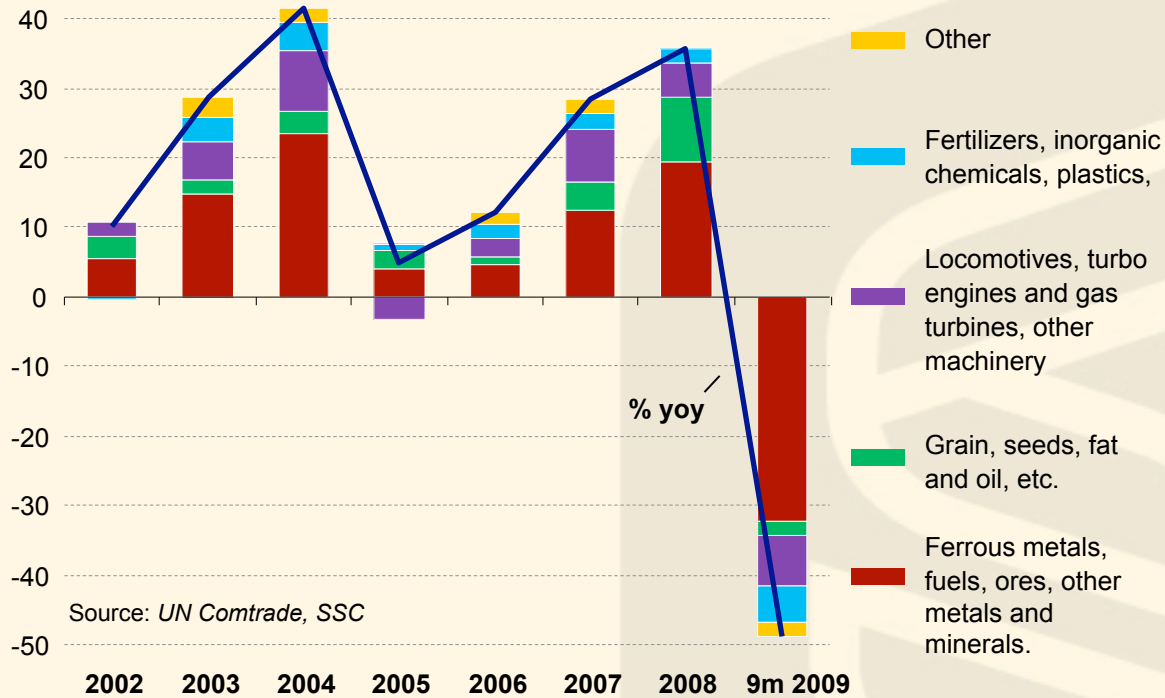
Exports, by Commodities and Key Trading Partners (2008)



Source: UN Comtrade, The Bleyzer Foundation

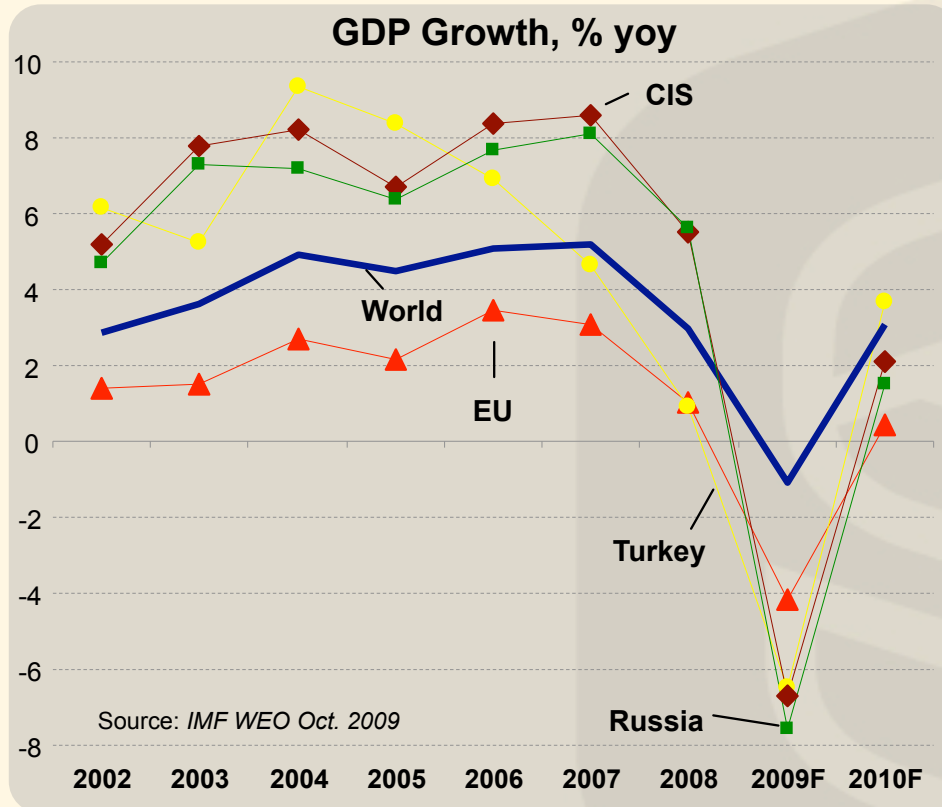
- ▶▶ Ukraine's exports are concentrated on low value-added commodities.
- ▶▶ Metallurgical & mineral products account for 50% of total exports.
- ▶▶ Machinery & transportation equipment represent only 16% of exports.

Ukrainian Exports – Contributions by Commodities



- ▶▶ Over time, Ukrainian exports have become less diversified, with metals and minerals increasing their contribution to export growth.
- ▶▶ This made Ukraine quite vulnerable, as global demand and prices of its low value-added commodities tend to be very volatile.

Economic Performance of Key Trading Partners



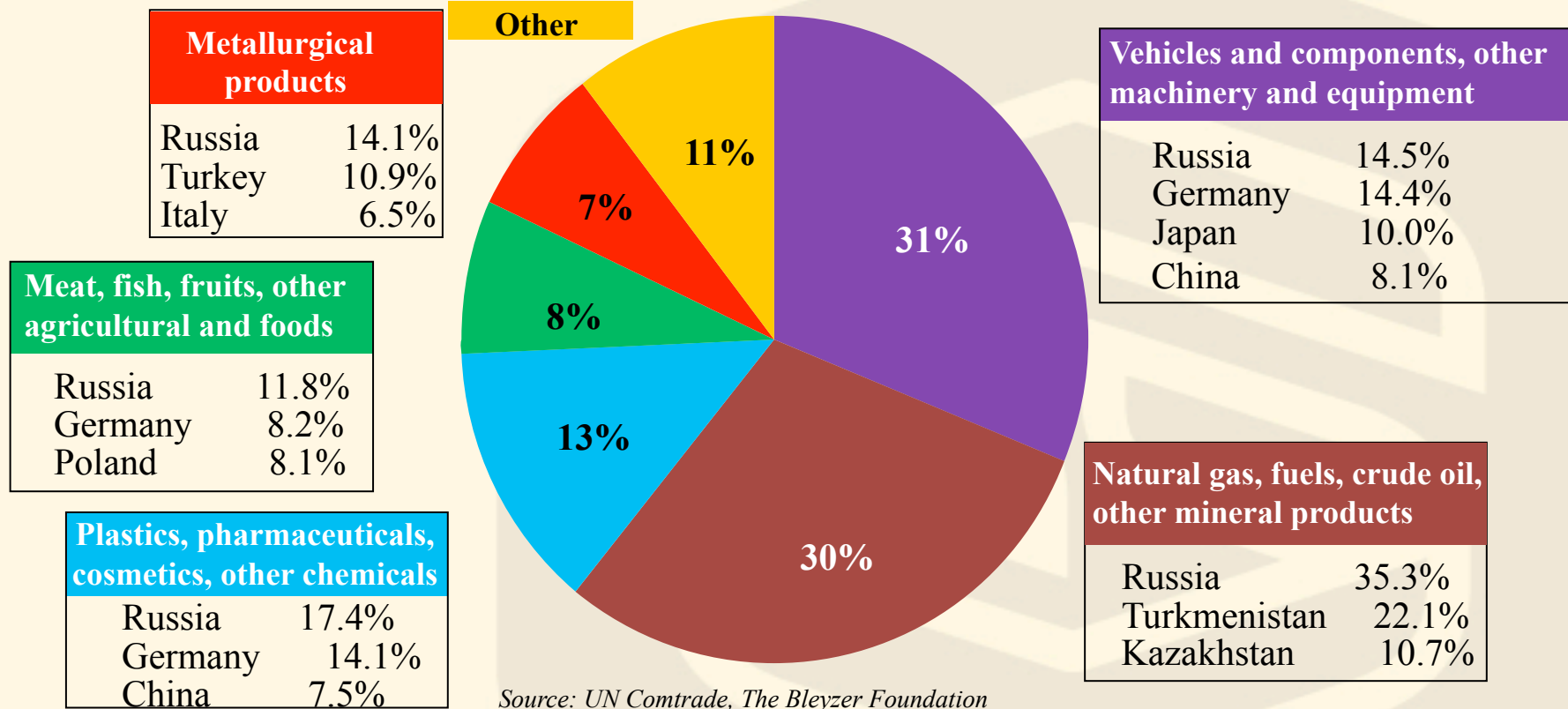
▶▶ Both CIS and EU regions were deeply affected by global financial crisis.

▶▶ This downturn caused a 50% decline in Ukraine's exports over 9m 2009.

▶▶ This drop exerted a heavy toll on Ukraine's industrial production and the broader economy.

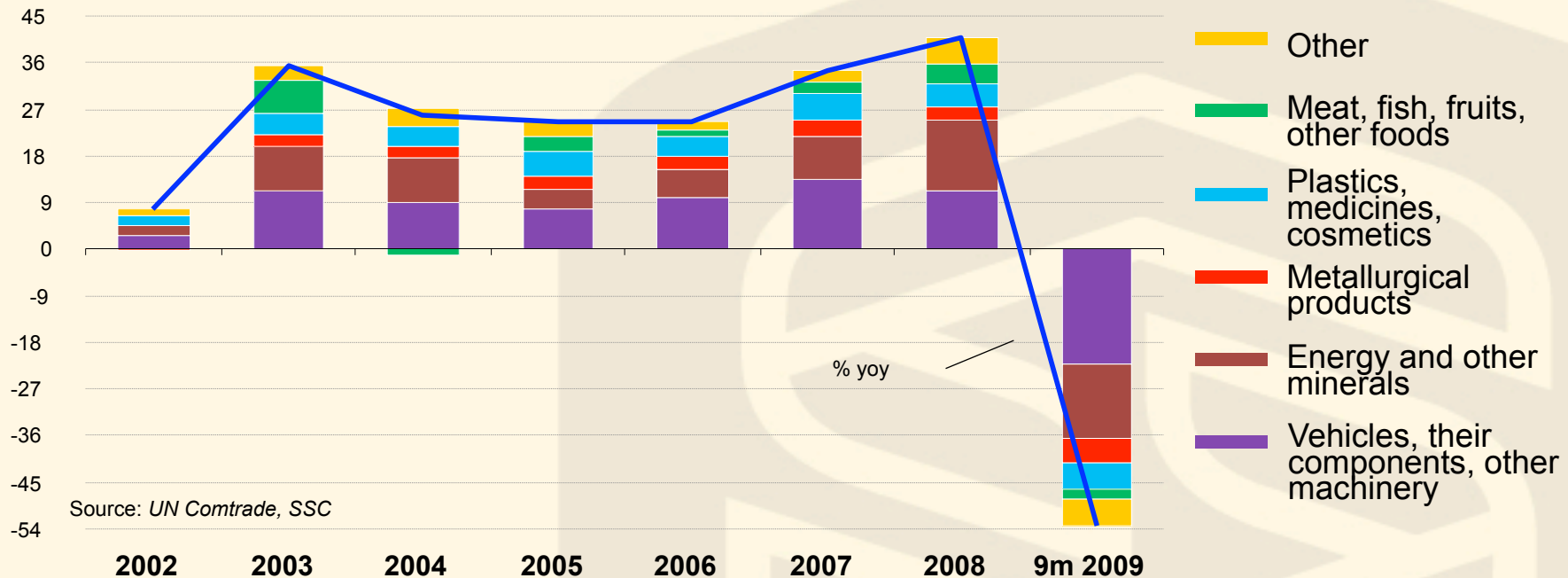
▶▶ It is clear that Ukraine's main priority should be to diversify its exports, both by products and by countries.

Imports, by Commodities and Key Trading Partners (2008)



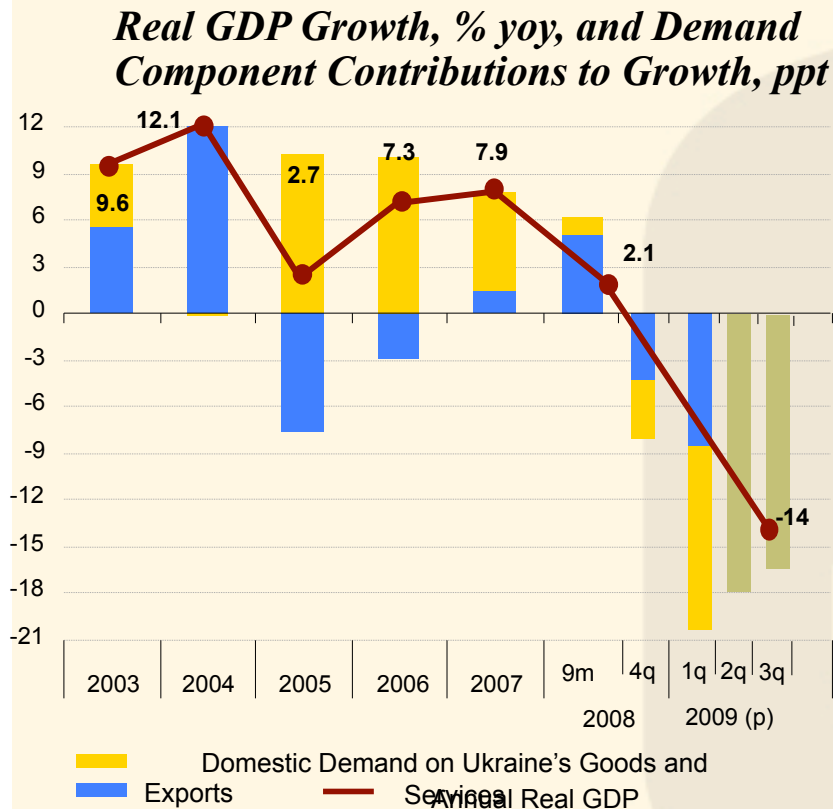
- ▶▶ Contrary to exports, Ukraine imports high value-added products from the EU and energy resources from the CIS countries.
- ▶▶ Ukraine must reduce its energy dependence.

Ukrainian Imports – Contributions by Commodities



- ▶▶ Strong consumer demand caused rapid growth of imports in 2003-2008.
- ▶▶ In 2009, imports dropped sharply due to (1) the devaluation of the hryvnia, (2) slower growth of consumer income, (3) decelerating industry, (4) tight access to banks' credit, and (5) lower energy prices,
- ▶▶ However, high energy intensity will exert pressure on external balances.

Sources of Ukraine's Economic Growth

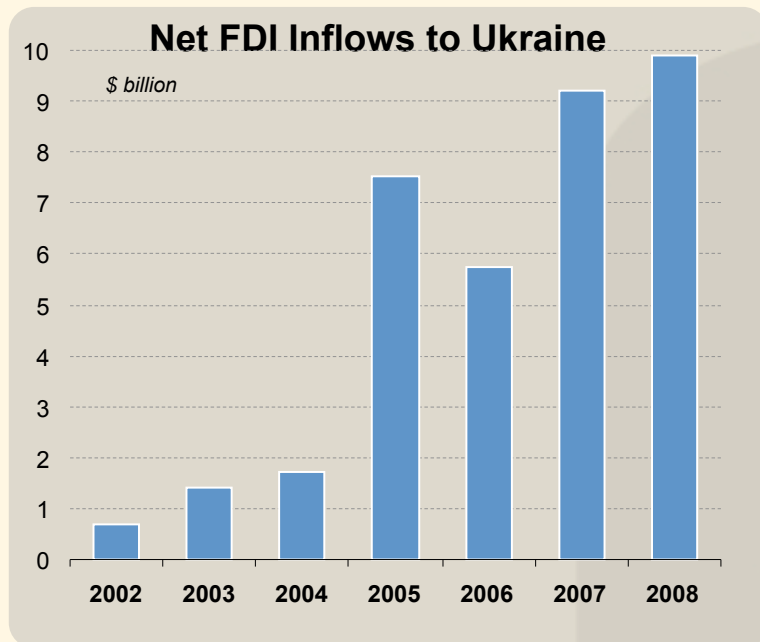


Source: State Statistics Committee, The Bleyzer Foundation

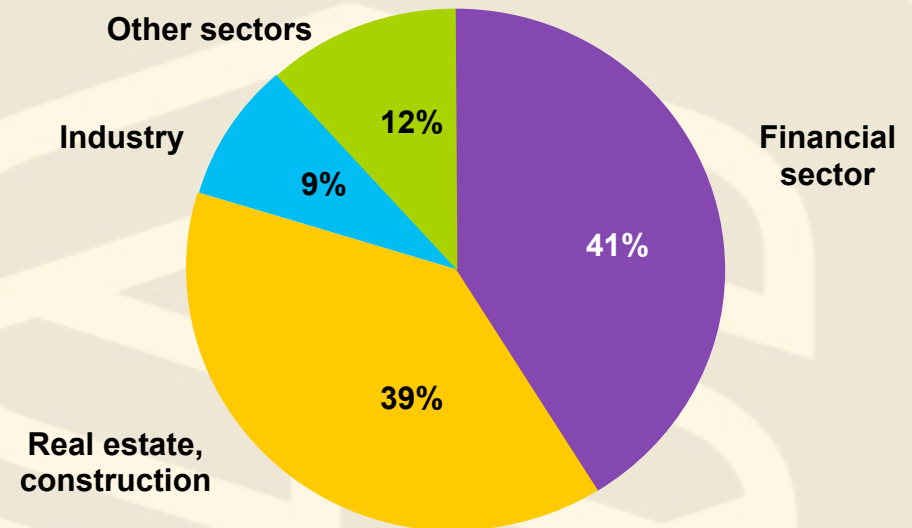
- ▶▶ In the past, economic growth was driven by **exports** and **consumption**.
- ▶▶ Exports was supported by high external demand and increasing commodity prices.
- ▶▶ Domestic demand was fueled by robust growth of wages, pensions and banking credit.
- ▶▶ **These sources are unlikely to be the main drivers of future growth.**
- ▶▶ Ukraine will need to find new sources of growth.

▶▶ Encouraging innovations, new technologies, energy efficiency and better management and human resources will be key to diversify exports, support productivity growth, and accelerate GDP growth.

Ukraine – FDI Flows



Structure of FDI Flows to Ukraine in 2007-2008



Source: NBU, The Bleyzer Foundation

- ▶▶ The best way to achieve innovation, new technologies and human and management resources is through Foreign Direct Investments.
- ▶▶ Before the crisis, net FDI inflows accelerated to Ukraine.
- ▶▶ However, the lion share of FDI flows was directed into the financial sector, real estate and construction (80% of total FDIs).
- ▶▶ Industry received less than 10% of total FDI inflows in 2007-2008.

Measures to Sustain Economic Growth

- ▶▶ Diversify exports by:
 - ▶▶ Entering into Free Trade Agreements with the EU and other countries.
 - ▶▶ Supporting productivity growth by encouraging foreign direct investments.
- ▶▶ For this, Ukraine's business climate should be improved by:
 - ▶▶ Bringing stability and predictability to legal environment, including reforming the judiciary;
 - ▶▶ Reducing the cost of doing business;
 - ▶▶ Improving public administration and reducing corruption;
 - ▶▶ Implementing a revised national energy policy.
- ▶▶ A pre-condition for a better environment is macroeconomic stability (both prices and foreign exchange) which would come only from prudent fiscal and monetary policies.