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Exports of Ukraine to the EU under the Pandemic Challenge

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Introduction

- In 2020 **COVID-19** – major challenge:
 - Supply and demand shock
 - Changes in consumption preferences
 - Disruption of labour supply
- **Objective** – assessing resilience /vulnerability of the Ukrainian exports to the EU under contraction of the economies and real exchange rate changes affecting price competitiveness

Methodology

- Macroeconomic trends under the pandemic
- Correlation and regression analysis of the past data to account for industry specific GDP and exchange rate elasticities
- Specification of the sector-specific regression models (growth values) for merchandise exports:
 - $$\text{Exp}_{\text{UA/EU}} = b_0 + b_1 \text{GDP}_{\text{UA}} + b_2 \text{GDP}_{\text{EU}} + b_3 \text{RER}$$
- Robustness check - weighting years
- Assumptions considering the current consumer preferences changes
- Elasticities*shares of industries in the exports
- Post-factum verification (1 half 2020), goods and services

Macroeconomic trends and trade barriers

- 2nd quarter 2020 **GDP** -9.9% in Ukraine (expected +1.6% in 4th quarter), Japan -7.9%, Germany -9.7%, India -25.2%, US -31.4% (Trading Economics, 2020).
- In January – July 2020 the total Ukrainian merchandise **exports** in goods decreased by 7.4% (State Statistics Service of Ukraine, 2020)
- The **real devaluation** of the hryvnia to the euro in March – August 2020 was 17.4% (calc. based on National Bank of Ukraine (2020) and European Central Bank (2020)).

Factors (-):	Factors (+):
<ul style="list-style-type: none">• metal exports ↓• economic contraction• return of seasonal labour migrants etc.	<ul style="list-style-type: none">• fuel imports ↓• relative resilience of food and vegetable oils exports• financing from the IMF and the EU• trade deficit in travel services ↓• spending foreign currency savings under the lockdown• almost no increase in external debt

Correlations of factors with growth of the EU exports to Ukraine and their product structure in 2018

Product group	GDP _{UA}	GDP _{EU}	RER	Share in ExpUA/EU, % in 2018
All products (AP)	0.66***	0.66***	0.20	
Food and live animals (FLA)	0.39*	0.19	0.12	18.6
Beverages and tobacco (BT)	0.29	0.50**	-0.05	0.2
Agricultural raw materials (ARM)	0.05	0.34	0.06	3.0
Oil seeds and oleaginous fruits, animal and vegetable oils, fats and waxes (OSF)	0.47**	0.38*	0.17	11.3
Ores, iron, steel or other metals (OIS)	0.55***	0.44**	0.22	30.9
Fuels (FUE)	0.34	0.52**	-0.06	3.3
Chemical products (CHP)	0.53***	0.57***	0.15	3.3
- Medicinal and pharmaceutical products (MPH)	0.60***	0.29	0.26	0.1
Textile fibres, yarn, fabrics and clothing (TFY)	0.35*	0.50**	0.11	3.6
Furniture and parts (FP)	0.46**	0.48**	0.04	2.4
Machinery and transport equipment (MTE)	0.37*	0.33	0.12	14.9
- Office machines and automatic data processing machines (OMA)	0.10	0.40*	-0.21	0.2
- Telecommunication and sound recording apparatus (TSR)	0.44**	0.52**	-0.02	1.5
- Road vehicles (RV)	0.21	0.07	0.34	0.2

Notes. *** means significance (unweighted cases) at $p < 0.01$, ** at $p < 0.05$, * at $p < 0.01$.

Source: authors' calculations based on UNCTADStat (2020).

Modelling results

- The effect of the shrinking **demand in the EU**:
 - exports of **metals** (elasticity 2.0), **chemical products** (2.4), **fuels** (2.6), as well as **furniture** (1.5) and **clothes** (0.9) may be the most vulnerable
 - the most resilient exports may include **food**, products for **medical** purposes, **agricultural** raw materials, **oil seeds and vegetable oils**
 - assumption about resilience of exports of the **IT equipment exports**, **beverages** and tobacco and about vulnerability of **machinery and transport equipment** exports regardless the previous empirical results
- None industry depend on **real exchange rate trends if exports to the EU**: (price competitiveness):
 - devaluation of hryvnia would not be an efficient policy to boost exports specifically to the EU, although it may affect some imports
 - already cheap products market segment
 - quality competitiveness is can be ensured under a wider compliance with the EU regulations (Association Agreement Implementation).
- Disruption of **labor supply** may also influence some exports
- Reverse effect on the GDP of major exports?

Growth of the Ukrainian exports to the EU in 1st half 2020

Products	Growth, %
Всі товари	-7
Animals and products thereof	-27
Plants and products thereof	-28
Vegetable oils and fats	30
Food products	-8
-beverages	67
-ores...	-40
-fuels, petroleum products	-29
Chemical and related products	-6
-pharmaceutical products	-7
Plastic	-7
Wood and products thereof	-14
Textile products and products thereof	-20

- Note: in comparison to the same period in 2019.
- Source: State Statistics Service of Ukraine (2020).

Growth of the Ukrainian exports to the EU in 1st half 2020

Services	Growth, %
Metals and products thereof	-19
Machines and electrical equipment	-17
Vehicles	12
- furniture	-8
All services	-17
Transport	-21
Travels	-39
ICT services	37
Business services	-4

- Note: in comparison to the same period in 2019.
- Source: State Statistics Service of Ukraine (2020).