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POTENTIAL AND ROLE OF UNDERSERVED FOREIGN MARKETS FOR THE DEVELOPMENT OF UKRAINE'S TRADE WITH THE EU

ПОТЕНЦІАЛ ТА РОЛЬ НЕДОТОРГОВАНИХ ЗОВНІШНІХ РИНКІВ ДЛЯ РОЗВИТКУ ТОРГІВЛІ УКРАЇНИ З ЄС

ПОТЕНЦИАЛ И РОЛЬ НЕДОТОРГОВАННЫХ ВНЕШНИХ РЫНКОВ ДЛЯ РАЗВИТИЯ ТОРГОВЛИ УКРАИНЫ С ЕС

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Abstract. *The article identifies the volume of underserved markets for the development of Ukraine's foreign trade with the EU. The Ukraine's export potential on the EU underserved market is analyzed. It is established that the intensification of trade relations between the Ukraine and EU is a mutually beneficial process, and export potential of Ukraine in the EU market for goods whose exports to the Russian Federation have decreased is of particular importance. The main foreign markets of Ukraine for the export of agricultural and industrial goods from Ukraine have been identified. The main commodity groups of underserved markets to the EU have been identified, the exports of which to the Russian Federation have decreased the most. According to the results of the study, it has been concluded that the underserved markets of the European Union play an important role in the development of Ukraine's trade: first, they allow reorientation of exports of Ukrainian goods, the import of which is prohibited into the customs territory of the Russian Federation, to EU* *markets; secondly, they help to identify directions for the modernization of Ukrainian production in accordance with the unmet needs of the European goods market. It is concluded that the process of deepening mutual trade in underserved markets in a free trade area is mutually beneficial for Ukraine and the European Union, as trading partners can benefit from increased trade flows, and establishing international partnership between the parties can bring additional benefits in the long run.*

Keywords. *Deep and comprehensive free trade area, foreign trade effects, underserved markets, international trade, trading partners.*

Анотація. *У статті визначено обсяг недоторгованих ринків для розвитку зовнішньої торгівлі України з ЄС. Проаналізовано недоторговану частину експортного потенціалу України на ринку ЄС. Встановлено, що активізація торгівельних відносин між Україною та ЄС являється взаємовигідним процесом, а особливого значення набуває експортний потенціал України на ринку ЄС за товарами, експорт яких в Російську Федерацію зменшився. Визначено основні зовнішні ринки України щодо експорту сільськогосподарських та промислових товарів з України. Встановлено основні товарні групи недоторгованих ринків в напрямку ЄС, експорт яких до Російської Федерації скоротився найбільше. За результатами проведеного дослідження підсумовано, що недоторговані ринки Європейського Союзу відіграють важливу роль в розвитку торгівлі України: по-перше, дають можливість переорієнтації експорту українських товарів, ввезення яких заборонене на митну територію Російської Федерації, на ринки країн ЄС; по-друге, допомагають виявити напрямки модернізації українського виробництва відповідно до нереалізованих потреб європейського ринку товарів. Зроблено висновок, що процес поглиблення взаємної торгівлі на недоторгованих ринках в умовах зони вільної торгівлі є взаємовигідним для України та Європейського Союзу, адже торговельні партнери зможуть виграти в результаті збільшення торгівельних потоків, а встановлення міжнародної партнерської кооперації між сторонами може принести додаткові вигоди в довгостроковій перспективі.*

Ключові слова. *Поглиблена та всеохоплююча зона вільної торгівлі, зовнішньоторговельні ефекти, недоторговані ринки, міжнародна торгівля, торговельні партнери.*

Аннотация. *В статье определен объем недоторгованных рынков для развития внешней торговли Украины с ЕС. Проанализирована недоторгованная часть экспортного потенциала Украины на рынке ЕС. Установлено, что активизация торговых отношений между Украиной и ЕС является взаимовыгодным процессом, а особое значение приобретает экспортный потенциал Украины на рынке ЕС по товарам, экспорт которых в Российскую Федерацию уменьшился. Определены основные внешние рынки Украины относительно экспорта сельскохозяйственных и промышленных товаров из Украины. Установлены основные товарные группы недоторгованных рынков в направлении ЕС, экспорт которых в Российскую Федерацию сократился всего. По результатам проведенного исследования сделано вывод, что недоторгованные рынки Европейского Союза играют важную роль в развитии торговли Украины: во-первых, дают возможность переориентации экспорта украинских товаров, ввоз которых запрещен на таможенную территорию Российской Федерации, на рынки стран ЕС; во-вторых, помогают выявить направления модернизации украинского производства в соответствии с нереализованных потребностей европейского рынка товаров. Сделан вывод, что процесс углубления взаимной торговли на недоторгованных рынках в условиях зоны свободной торговли является взаимовыгодным для Украины и Европейского Союза, ведь торговые партнеры смогут выиграть в результате увеличения торговых потоков, а установление международной партнерской кооперации между сторонами может принести дополнительные выгоды в долгосрочной перспективе.*

Ключевые слова. *Углубленная и всеобъемлющая зона свободной торговли, внешнеторговые эффекты, недоторгованные рынки, международная торговля, торговые партнеры.*

Introduction. The creation of a free trade zone with EU partners gives Ukraine the opportunity to diversify the geography and range of export potential in the long run and attract significant investment in various sectors of the economy. Effective integration processes between Ukraine an EU countries are formed on the basis of complementarity that exists in trade relations. However, in the mutual trade relations of Ukraine and the EU underserved markets have been formed which requires a thorough analysis of goods with high export potential.

The purpose of research. The purpose of this article is to investigate the export potential of Ukraine and underserved markets in EU countries.

Analysis of the latest publications. In recent years, Ukrainian scientists have been actively studying the export potential and trading opportunities in the European market of Ukraine. In particular, Y. Poliakova studies the innovative components of Ukraine's export activity, the priorities of export potential in the direction of, in particular, EU countries [Poliakova, 2020]. O. Lytvyn studies the export potential and opportunities of Ukrainian small and medium enterprises in the European market and third countries after creation of a deep and comprehensive free trade area between Ukraine and the EU [Lytvyn, 2016]. M. Serpukhov explores the question of finding new, more attractive markets for Ukraine with easier access and better trade conditions [Serpukhov, 2019].

The important research results. Despite the fact that Ukraine has returned its vector in the trade aspect from Russian to European over the last decade, its export flows to some EU countries are currently quite low, due to a number of reasons:

- the presence of a significant gap between the economic development of Ukraine and the EU [Honcharuk, 2018];
- non-optimized procedure for crossing the EU customs borders, which requires harmonization of customs legislation of Ukraine [Sardak, 2019];
- production processes in Ukraine are mainly focused on the needs of the domestic market and those external partners with whom trade relations have been established for a long time [Pozhyeva, 2017];
- the potential of underserved foreign markets remains out of the attention of domestic enterprises, that are markets that have a potential consumption of goods that meet the specialization of the exporting country and provide easier trade conditions than others, which makes foreign trade attractive in terms of product range and geographical diversification [Ministry for development of economy, trade and agriculture of Ukraine, 2018].

Regarding the above, EU markets remain outside of the most promising at agriculture. According to the WTO, the most promising agricultural trading partners of Ukraine are Georgia, Malawi and Moldova. This statement is based on the ranking of Ukraine's trading partners by the volume of agricultural exports to countries. The rank of these countries and indicators that affect the export regime of agricultural goods of Ukrainian origin are given in Table 1.

The products with the greatest export potential from Ukraine to Georgia and Malawi are wheat (except for durum wheat), sunflower and safflower oils. Ukraine has high potential to supply sunflower and safflower oil to Moldova and meets demand for the following goods: bird skin and other parts of birds, sugar from sugar cane or sugar beet, as well as solid sugar.

Table 1

Promising export markets of Ukraine for agricultural products

	Georgia	Malave	Moldova
Rank of partner by export volume	3	5	5
Weighted average rate of preferential duty, %	0	1	0
Weighted average rate of duty, %	7.7	1	11
Simple average rate of duty, %	12.7	2.8	11.7
Weighted average preferential margin, %	7.7	0	11
Volume of exports to a partner from Ukraine, million $	82	43	25
Share of duty-free export to partner, %	100	0	100
Share of duty-free tariff items exported, %	100	22.2	100
Number of exported groups of goods	3	1	12
Number of exported subgroups of goods	8	2	28

Source: [The World Trade Organization. Data. URL: https://data.wto.org/].

Ukrainian exports of agricultural products are characterized by dependence on some major commodity items, which creates the danger of significant fluctuations in the volume and magnitude of export supplies. In 2019, more than half of the revenues from the export of agricultural products were covered by only three groups of goods, such as corn (24%), sunflower oil (19%) and wheat (17%) [State fiscal service of Ukraine, 2020].

Ukraine's significant potential to increase the domestic market, stable and relatively high rates of economic development in recent years and expanding access to European agricultural markets for Ukrainian producers are important in the development of trade. However, in a free trade environment, there is a potential medium- and long-term risk for some of Ukraine's agricultural food producers (of meat and dairy products) who are not sufficiently competitive in EU markets.

For the Ukrainian agricultural sector, European economic integration will lead to the modernization of domestic enterprises, attracting foreign investment and advanced technologies, competitive recovery of Ukrainian products, new financial resources for economic development and improving the living standards of its citizens. However, creation of free trade zone may not guarantee the start of positive changes in economy of Ukraine. Ukraine's integration into the EU will be long-lasting due to the problems and tasks that need to be fulfilled before the full development of the Ukrainian agricultural sector. The raw material orientation of Ukrainian exports reveals the low-paid compensation for agricultural producers, as well as the technological underdevelopment of agriculture [Yatsenko, 2017].

The main foreign markets of Ukraine for the export of non-agricultural goods, according to WTO studies, are Azerbaijan, Belarus, Guinea, Guyana and Moldova. The prospects of these trading partners caused by demand for Ukrainian goods and the creation of trade regime between the partners (Table 2).

Table 2

Promising export markets of Ukraine for non-agricultural products

	Azerbaijan	**Belarus**	**Guinea**	**Guyana**	**Moldova**
Rank of partner by export volume	5	3	5	5	3
The weighted average rate of preferential duty, %	0	0	0	0	0
Weighted average rate of RNS duty, %	0.1	2	0	0	2
Simple average rate of RNS duty, %	3.1	4.2	0	0	4.6
Weighted average preferential margin, %	0.1	2	0	0	2
Volume of exports to a partner from Ukraine, million $	445	3.8	118	76	92
Share of duty-free export to partner, %	100	100	100	100	100
Share of duty-free tariff items exported, %	100	100	100	100	100
Number of exported groups of goods	2	37	1	1	24
Number of exported subgroups of goods	3	141	1	1	61

Source: [The World Trade Organization. Data. URL: https://data.wto.org/].

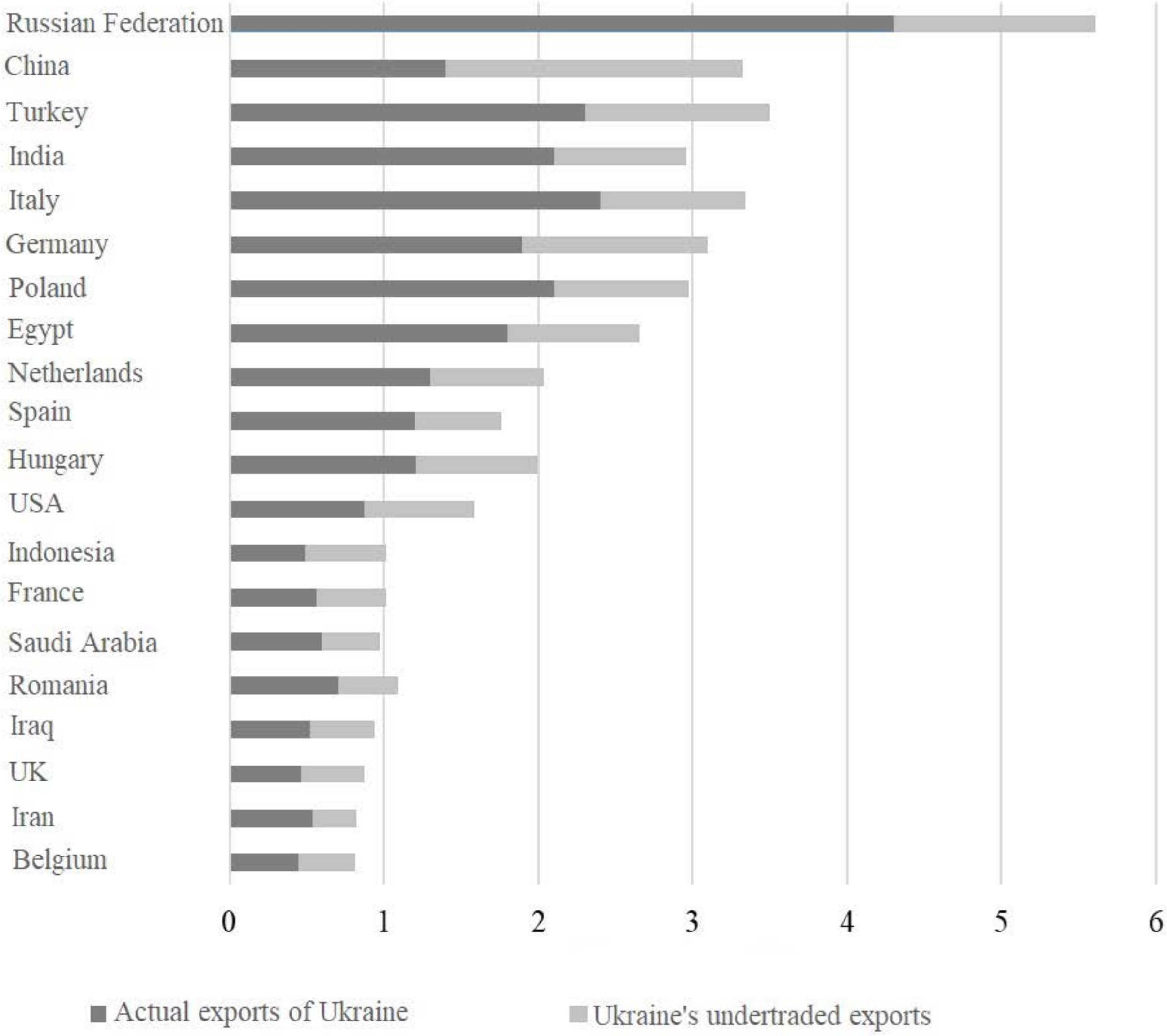
Ukraine's export potential on the Azerbaijan market is $241.8 million, of which the underserved share is 50.4%, Belarus - $609.4 million (underserviced share - 19.7%), Guinea - $34.9 million (underserviced share - 72.5%), Guyana - $2.2 million (underserviced share - 95.5%), and Moldova - $369.3 million (underserviced share - 27.2%).

It is worth noting that the customs duties of countries on industrial products under the most-favored-nation treatment are lower than on agricultural products (except for Malawi). In addition, these markets have a wider diversification of goods, in contrast to agriculture market.

Globally, Ukraine's main underserved markets are Russian Federation, China, Turkey and India (Figure 1).

Figure 1.

The largest underserved foreign markets of Ukraine, $ billion



Source: [International Trade Centre. Export potential map: spot export opportunities for trade development. URL: https://exportpotential.intracen.org/en/markets/gap-chart?fromMarker=i&exporter=804&toMarker=j&whatMarker=a&what=a]

Export potential of Russian market for Ukraine is $4.1 billion. However, Russian Federation is less accessible because of the development of a political and trade disputes between the partners since 2013. Only in 2019 exports of goods to Russian Federation decreased by 11%. Such a tense trade and economic situation has led to a change in the entire structure of exports to the Russian Federation, including agricultural products. A few years ago the main share of exports to Russian Federation were dairy products, cheeses, fats, oils, confectionery and beverages. Today Ukraine exports mostly meat products, alcoholic beverages, products including cocoa. Some Ukrainian manufacturers, whose activities were focused on the Russian market, suffer certain losses. Companies that export vegetables, meat and fish suffer the most from recent trade restrictions. Bilateral restrictive actions have led to a reduction in export-import flows between countries.

During 2013-2018, there was an annual decrease of Ukrainian exports to Russian Federation in relation to different groups of goods:

- on average by 7.13%: railway locomotives (group 86);
- on average by 1-5%: cocoa and its products (group 18), other base metals; cermets, articles thereof (group 81), salt; sulphur; earths and stone; plastering materials, lime and cement (group 25), preparations of cereals, flour, starch or milk; pastrycooks' products (group 19), ferrous metals (group 72).

The annual decrease in the share of Russian exports in the total volume of imports of Ukraine during 2013-2018 was typical for the following groups of goods, namely:

- on average by 51.81%: products of inorganic chemistry (group 28);
- on average by 5-6%: other base metals; cermets, articles thereof (group 81), mineral fuels; petroleum and its products (group 27), fertilizers (group 31), copper and articles thereof (group 74);
- on average by 1-5%: gunpowder and explosives (group 36), various finished products (group 96), organic chemical compounds (group 29), finished grain products (group 19).

Therefore, there is a need to reorient to other markets to ensure a stable export flow of Ukraine. In this aspect, the underserved EU markets play a key role.

Then, China shows the largest absolute difference between potential and actual exports in value terms, leaving room to realize additional exports worth $2.2 billion. Export potential of China market for Ukraine is $3.4 billion.

Exports of goods to China are growing rapidly - among the counterparties of Ukraine, China is the biggest country-importer. Exports to China increased by 63% in 2019 compared to 2018. In 2019, the structure of Ukrainian exports to China was as follows: ore, slag and ash - 32.8%; cereals - 23.9%; fats and oils - 20.6%; residues and waste from the food industry - 7.6%; boilers, machines - 4.9% [Embassy of Ukraine in the People’s Republic of China, 2020].

Export potential of India for Ukraine is amounted to $2.5 billion. Thus, the untapped potential remaining in individual products is $861.2 million. At the same time, Ukraine is losing the initiative in export relations with India. In 2019 India became one of the negative leaders in the fall of exports from Ukraine.

As for Turkey, its export potential for Ukraine is amounted to $2.3 billion. The untapped potential remaining in individual products is $999.2 million [International Trade Centre, 2020].

Regarding the EU market, the growth of exports to the EU slowed to 3.9% in 2019 from 14.3% in 2018. In 2019, Ukraine had a negative balance of trade in goods with the EU that is amounted to $4.3 billion. However, despite large volumes of trade with Russian Federation, China, India and Turkey, the EU remains one of the most promising markets for Ukraine: trade with the EU in 2019 amounted to 41.5% of total trade. The share of imports from the EU is 41.13%, exports - 41.46%. As of 2019, the EU is Ukraine's main trading partner. During 2013-2019, there was a reorientation of exports of goods by Ukraine to the European direction. At the same time, the volume of exports to Asian countries and the CIS countries has a general tendency to decrease during 2013-2019.

Geographical representation of largest underserved European markets of Ukraine is presented below (Figure 2).

Figure 2.

Geographical representation of largest underserved European markets of Ukraine, $ million

Source: [International Trade Centre. Export potential map: spot export opportunities for trade development. URL: https://exportpotential.intracen.org/en/markets/gap-chart?fromMarker=i&exporter=804&toMarker=j&whatMarker=a&what=a]

Based on the data on the assessment of the export potential of the world in various markets, it is possible to identify those European areas of export that will minimize the negative effects of the Russian trade war against Ukraine.

The volume of Ukraine's underserved market in the EU is $8.3 billion, of which: $61.6 million - group 4 "Milk and dairy products, poultry eggs; natural honey", $28.6 million - group 11 "Products of the flour and cereals industry", $7.6 million - group 16 "Meat and Fish Products", $50.4 million - group 17 "Sugar and sugar confectionery", $68.4 million - group 18 "Cocoa and Cocoa Products", $83.8 million - group 19 "Finished grain products", $11.8 million - group 20 "Vegetable Processing Products", $48.2 million - group 22 "Alcoholic and non-alcoholic beverages and vinegar", $1.6 million - group 25 “Salt; sulfur; earth and stones", $61.9 million - group 27

“Mineral fuels; oil and products of its distillation", $137.8 million - group 48 "Paper and Cardboard", $35.2 million - group 69 "Ceramics", $1780.2 million - group 72 "Ferrous Metals", $217 million - group 73 "Ferrous metal products", $4.2 million - group 81 "Other base metals" and $18.2 million - group 89 "Ships". The list covers these groups of goods, as their share in total imports of the Russian Federation decreased the most.

Equally important for the development of trade with the EU is the potential of the underserviced Ukrainian market: the EU's export potential for the Ukrainian underserved market is $12,638 million. Therefore, exporters of EU member states are also interested in the development of trade with Ukraine, as it is a promising market for the sale of European products.

Analyzing the possibility of access to underserved European markets, it should be noted that the conditions are quite unfair and discriminatory against Ukraine. The European Union has its own combined import duty rates. In addition to the specific structure of combined duty rates of EU, EU also applies a system of entry prices. The European Union also applies export subsidies for agricultural products unlike Ukraine. However, it should be noted that agriculture plays one of the key positions for the Ukrainian economy in contrast to European countries. More than thirty groups of products are covered by tariff quotas by EU, including: animal products (milk, honey, cheese, etc.), vegetable products (vegetables, fruits, grains), some ready-made food products (sugar, juice, etc.), alcohol, tobacco products etc. This list of products is quite vulnerable for Europe and are under strict control in EU.

In addition to customs duties, the main barriers for trade of Ukrainian on EU markets are non-tariff barriers, such as: compliance with EU standards, differences in customs systems and various procedures for determining the conformity of industrial products. An additional barrier for Ukrainian goods is the preferential rules of origin applied by the European Union.

Thus, the existence of underserved EU markets for Ukraine can be explained by the negative impact of various non-tariff barriers (both at European and national levels) or other factors such as low competitiveness (in terms of price or quality) of Ukrainian goods compared to similar goods supplied by other countries, taste preferences of EU consumers, etc.

Conclusions.

As a result of the analysis of the underserved part of Ukraine's export potential on the EU market ($8.3 billion), as well as underserved part of the EU export potential on the Ukrainian market ($12.6 billion), it was established that the intensification of trade relations between the states is a mutually beneficial process. Of particular importance is the export potential of Ukraine on the EU market of goods whose exports to Russian Federation decreased during last years.

The trade war between the Russian Federation and Ukraine led to a reorientation to European markets in the context of the creation of a free trade zone with the EU. Also, in contrast to deteriorating relations with Russian Federation, we can see an improvement in relations with the EU, as evidenced by the introduction of a number of EU economic sanctions against Russian Federation in response to actions against Ukraine. In general, there is a gradual convergence of relations with the EU: today the EU is Ukraine's main trading partner.

Thus, according to the results of the study, we can conclude that the role of the underserved market of the European Union plays two main roles in the development of Ukraine's trade: first, the possibility of reorientation of exports of Ukrainian goods banned in Russian Federation; secondly, identifying areas for modernization of Ukrainian production in accordance with the needs of the European market.

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