

Trade and investment regime in Ukraine: open but unfavorable

Speaker:

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Outline

- Trade
- Investment
- Summary

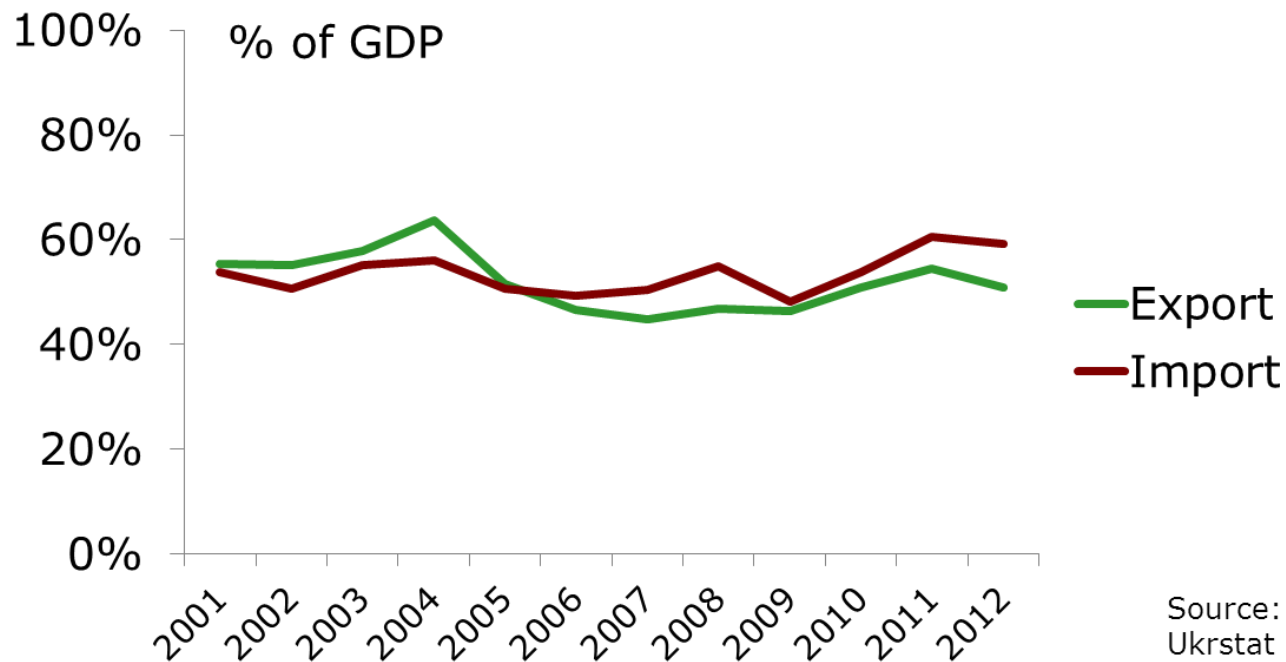


TRADE

Trade: facts

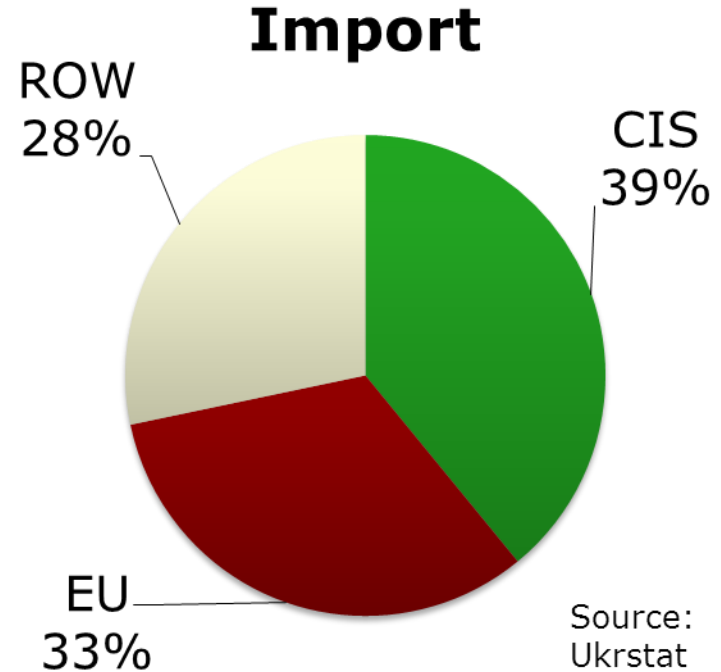
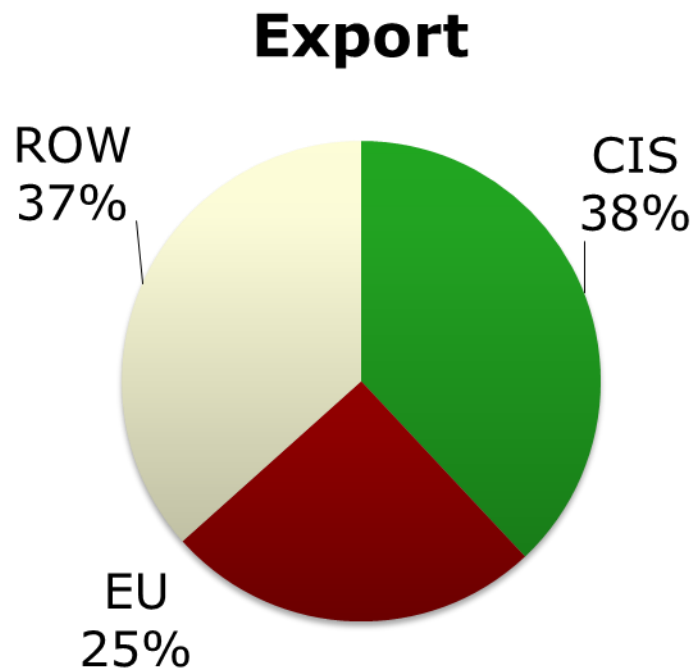
Ukraine is an open economy ...

- Exports plus imports: from 95% to 120% of GDP



Trade: facts

... which trades mainly with the EU and the CIS
(especially Russia)



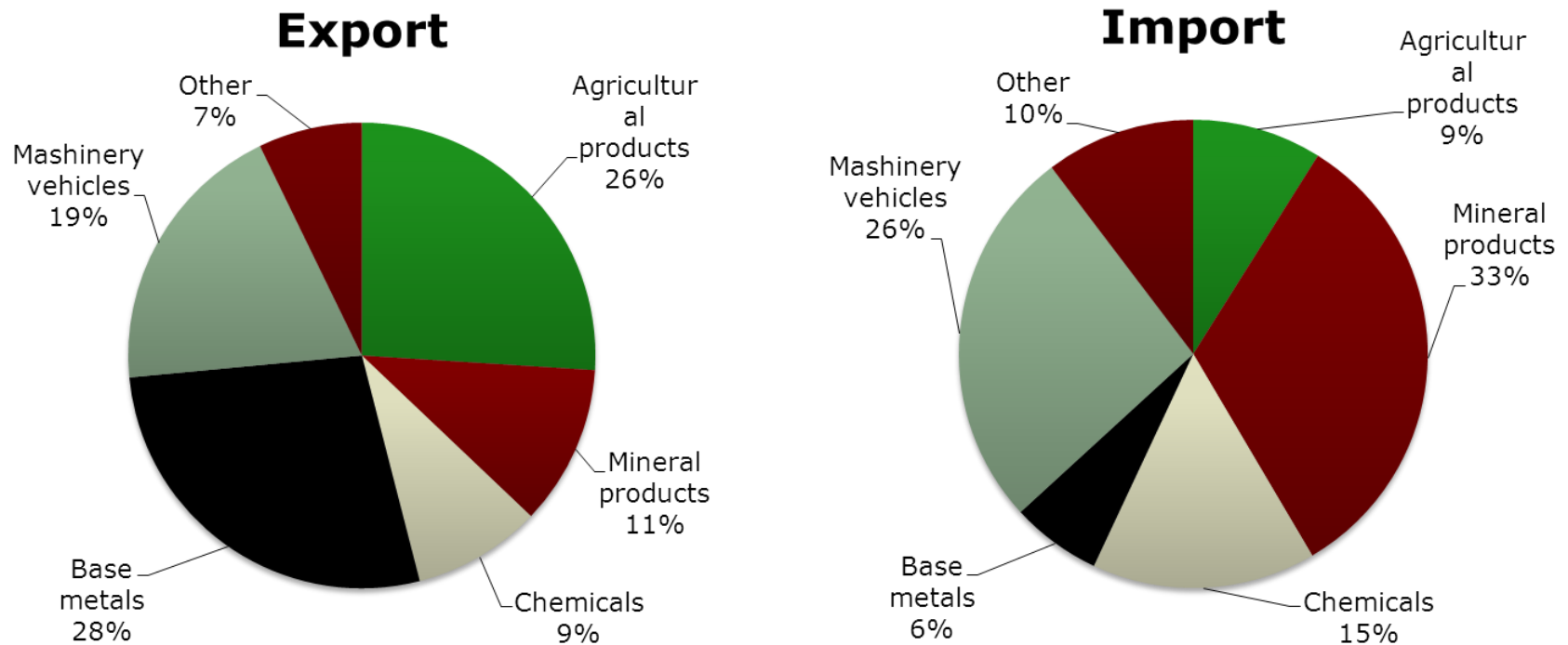
Source:
Ukrstat

Data for 2012



Trade: facts

... which exports steel, grain, equipment;
imports oil, gas, vehicles, equipment



Source: Ukrstat, data for 2012



Trade: liberalization

Ukraine's trade regime is open de jure ...

- Low import duties
 - the average MFN applied tariff rate for agricultural products is **9.5%**
 - the rate for non-agricultural products is **3.7%**
- Only a few export duties
 - for some cereals, oil seeds, cattle, skins, natural gas, and scrap of metals
- Few other restrictions
 - import quotas (sugar)
 - export quotas (now: gas, some metals; sporadically: grain)



One of
15 countries
with
the **lowest**
average import
duty
in the world

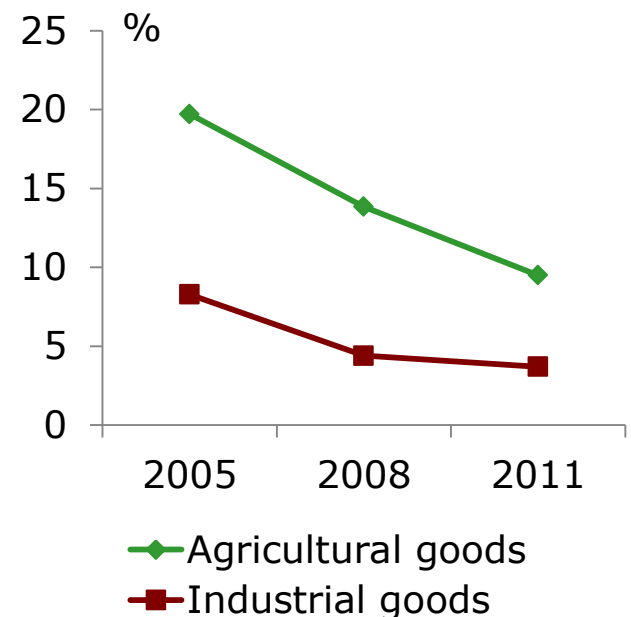


Trade: liberalization

... which is mainly a result of liberalization in 1990's

- Duties for industrial goods were relatively low before the WTO-induced reduction
- The WTO contributed to tariff reduction
 - especially for agricultural goods
- The WTO caused reduction of non-tariff barriers
 - quotas, licenses
 - subsidies
 - technical regulation reform

Simple average applied MFN import duty



Source: MEDT, WTO



Trade: liberalization

... but de facto trading is not easy

- Ukraine holds 145th position out of 185 countries by the ease of trading across borders, according to the Doing Business index by the World Bank
- Total costs of export/import operations is high
 - on average a company has to pay **USD 2,155**, fill in **8 documents**, and spend **33 days** to import a container
 - the corresponding figures for OECD countries are **USD 1,080**, **4 documents**, and **10 days**
- Outdated technical regulation impedes exports



Trade: future

Ukraine intends to continue liberalization

- Expects to sign the DCFTA with the EU
 - further tariff reduction in EU-Ukraine trade
 - system of technical regulation will be adjusted to EU standards
 - reforms that affect trade (competition policy, state aid)
- De facto trade regime is becoming more open
 - number of customs inspection fell seven times in 2009-2012
 - only **9.9%** of goods were inspected by the State Customs Service of Ukraine in 2012



Trade: effects

The WTO induced reforms had positive effect on the economy

- Effect on business activities
 - 31.3% of managers stated that the impact of WTO membership on export activities of their companies was positive, 59.4% reported no effect (2013 survey by IER)
 - the figures for importers are 27.5% and 61.7%, respectively
- Effect on productivity
 - a decrease in import duties contributed to productivity growth
 - the effect on labor productivity was greater than on total factor productivity
 - the greatest effect on food and tobacco industry

Trade: effects

The DCFTA will contribute to growth

- Long-run welfare gains could be between 4% and 11%
 - depend on the depth of regulatory approximation
- Challenges:
 - Gains will be distributed unequally
 - In short-run, burden of regulatory approximation could increase

INVESTMENT

Investment: inward

Since 1990's Ukraine has been open to foreign investment ...

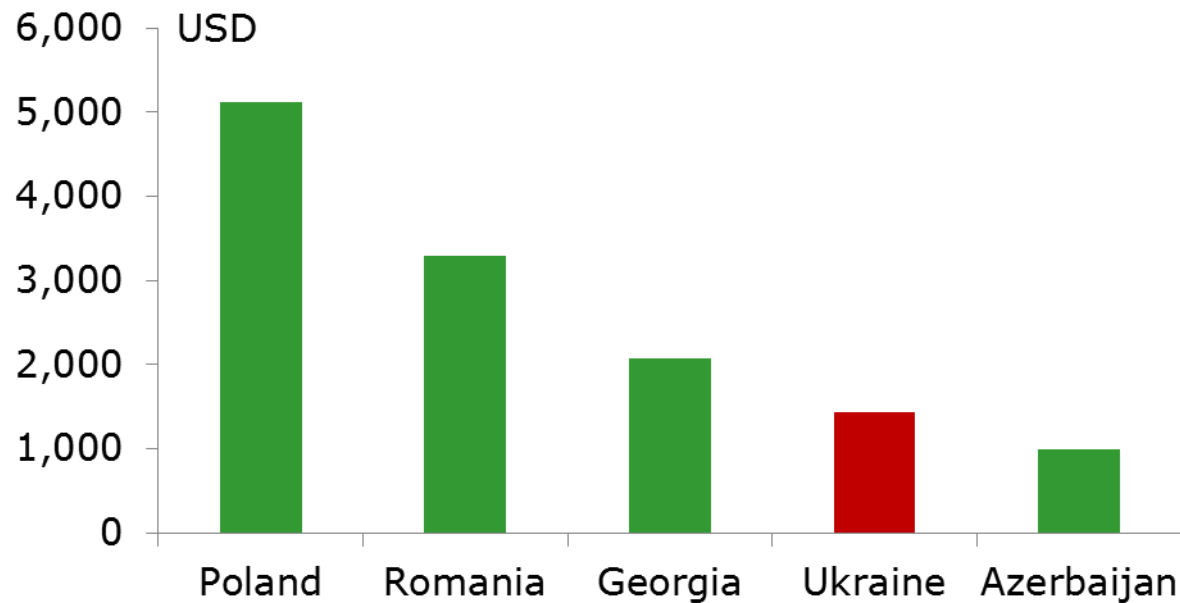
- National treatment for FDI and portfolio investment
 - only land and media ownership is limited
 - privileges for investors (no import duties for direct investment in kind, guarantees against nationalization)
- A few limitations for foreign bank loans:
 - interest rates cannot exceed the ceiling (now **9.8%** per annum for loans for a term less than 1 year)
 - prior registration is usually required



Investment: inward

... but inward investments are limited due to unfavorable business climate

FDI stock per capita as of 2011

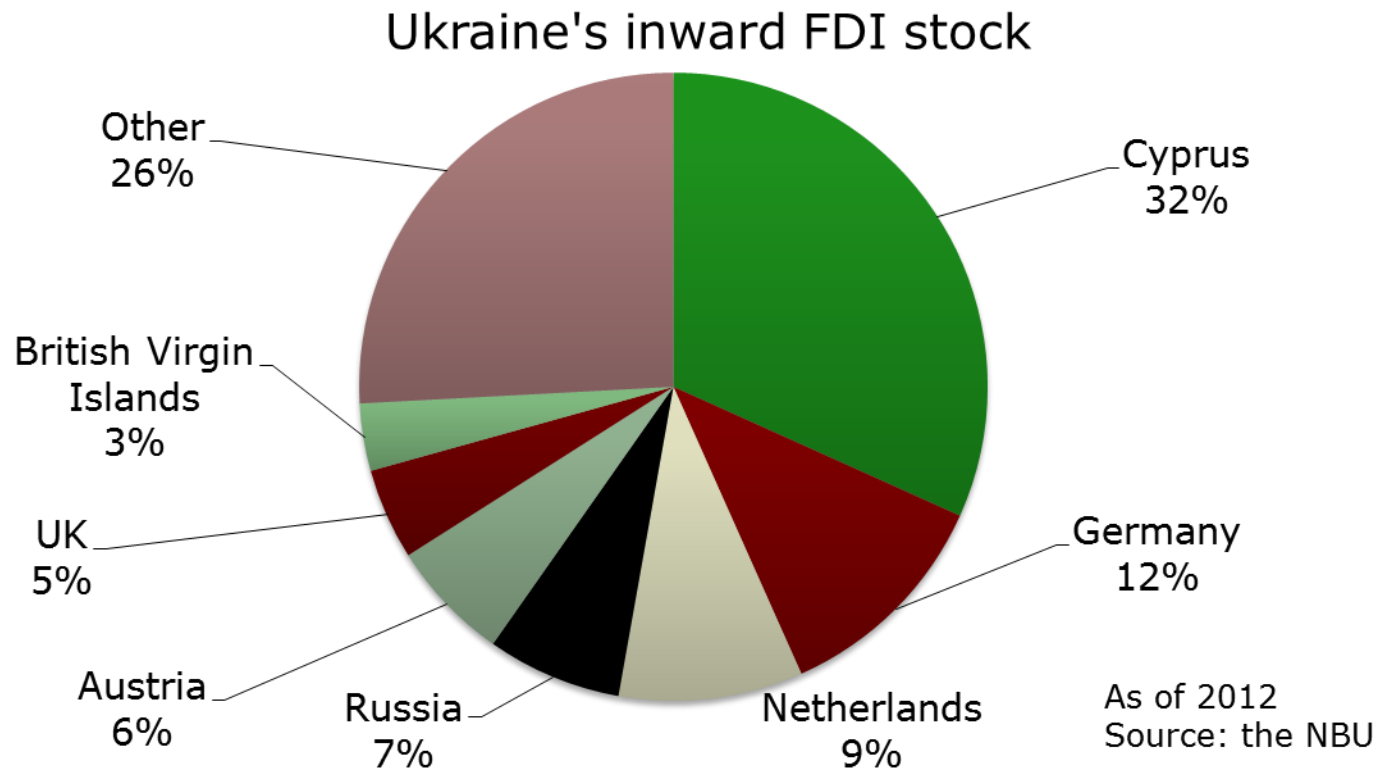


Sources:
UNCTAD, IMF



Investment: inward

Main investors into Ukraine are Cyprus companies



Investment: outward

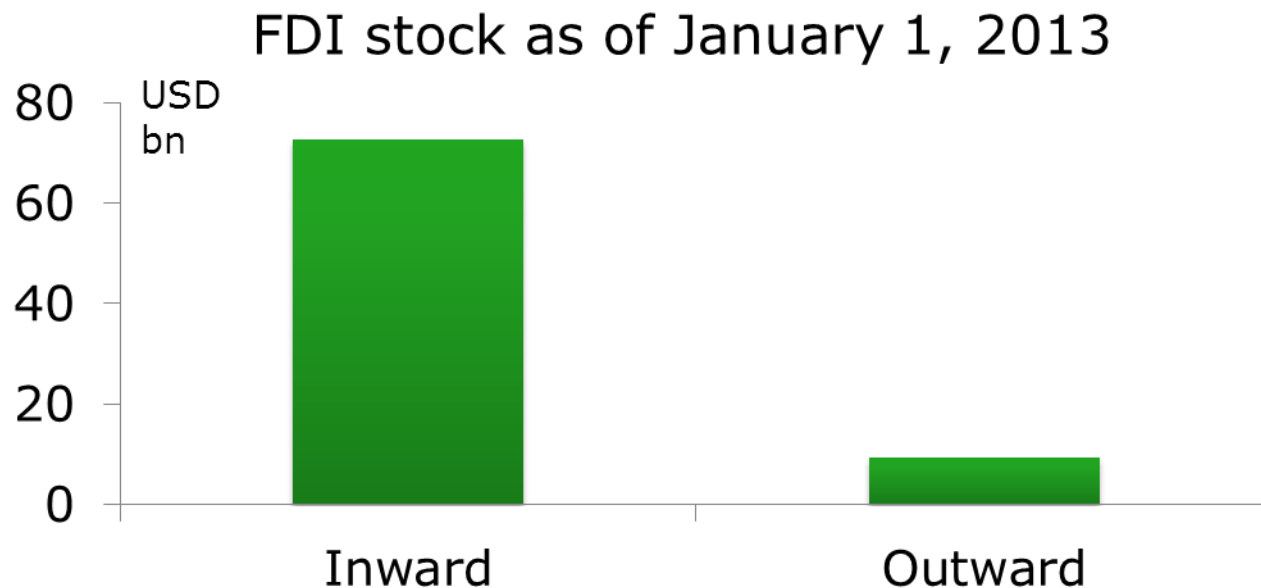
Investment abroad is restricted

- Investment requires authorization (a bunch of licenses)
 - a lot of red tape
 - the Ministry of Internal Affairs and the State Security Service of Ukraine are involved in the licensing process
 - Mandatory repatriation of profits from investment
- Large fines for violation
 - the amount of a fine equals the amount of an unauthorized investment



Investment: facts

Actual foreign investment flows in Ukraine are in line with the regulation ...

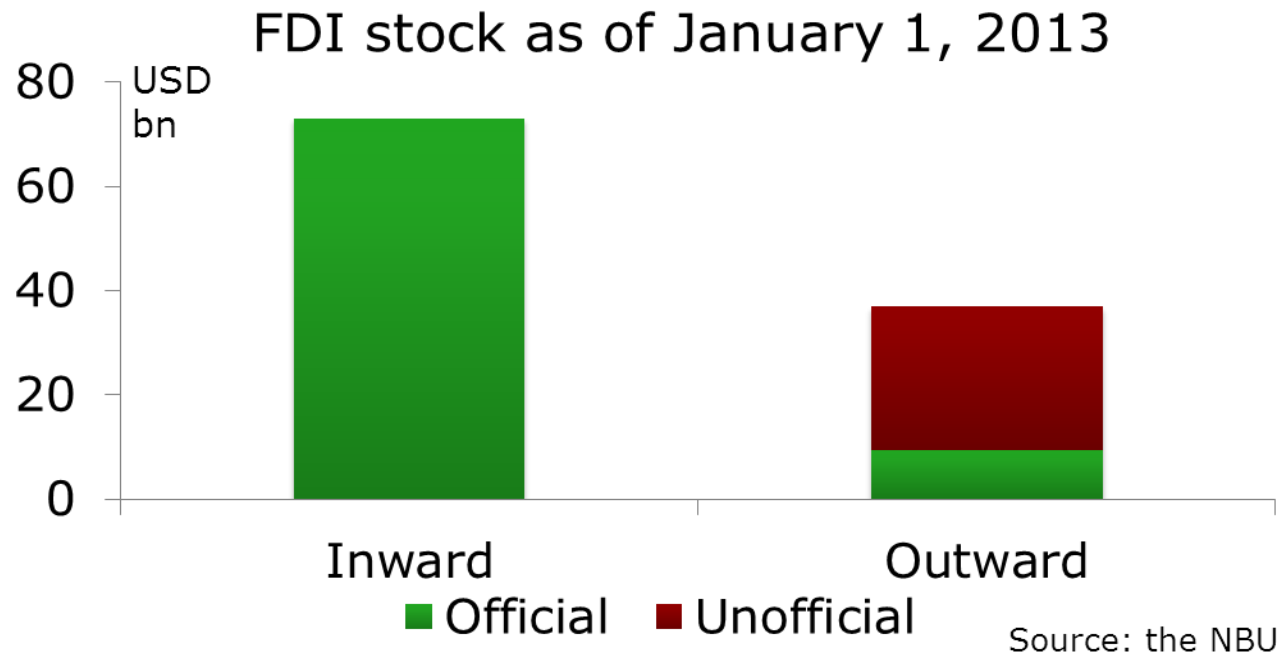


Source: the NBU



Investment: facts

... but capital moves abroad also through unofficial channels (concealment of proceedings from export sales, fictitious operations with securities etc.)



Investment: future

The DCFTA makes provision for liberalization

- The agreement allows the free movement of capital between Ukraine and the EU
 - direct investments
 - portfolio investments
 - loans and credits
- Ukraine commits to liberalize the transactions on the capital and financial accounts of BOP
 - equivalent to the liberalization in the EU

Summary: Ukraine

- Ukraine's trade regime is relatively open
 - main barriers are red tape and technical regulation
- Ukraine is open to foreign investment, but outward capital flow is restricted
 - the inward investment are limited by unfavorable business climate
 - Companies tend to evade formal barriers
- The DCFTA with the EU will contribute to economic growth and an increase in investments



Thank you!

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