

# Key trends in foreign trade between Ukraine and Turkey

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**Abstract.** No state in the world can develop successfully without an effective system of foreign economic relations, which can intensify integration into the world economy. However, despite the trend towards integration, the world economy remains the largest conglomerate of economies with different levels of development. Therefore, it is very important for each country to realistically assess its current position and possibly future place in global cooperation, taking into account their own interests and special development goals. The efficiency of export-import activity is a proof of the country's development, especially in the conditions of intensification of globalization processes, in which both, Ukraine and Turkey, are involved. Bilateral trade relations occupy the largest niche in world trade. Turkey and Ukraine show mutual interest in the development of bilateral relations, the intention to reach a qualitatively new level of trade relationships, as indicated by the long-term negotiations on signing a free trade agreement. Further intensification of contacts between the two countries has formed a new vector in their foreign policy.

## 1. Foreign trade of Ukraine

The economic growth dynamics of most countries in the world largely depend on foreign trade. However, trends in world markets are constantly changing under the influence of many factors. For Ukraine, whose market is extremely volatile, characterized by instability and increased risks, foreign trade is an important driver of economic growth. Moreover, the size of the net export balance affects not only the state of the country's balance of payments and the situation in the domestic foreign exchange market, but also the country's ability to maintain economic independence, maintain external public debt at a safe level, preventing a critical loan in the global financial market.

That is why the impact of foreign trade in order to improve the management of export-import activities and maintain its rational commodity structure and foreign trade balance at the optimal level for the economy, is very important for each country.

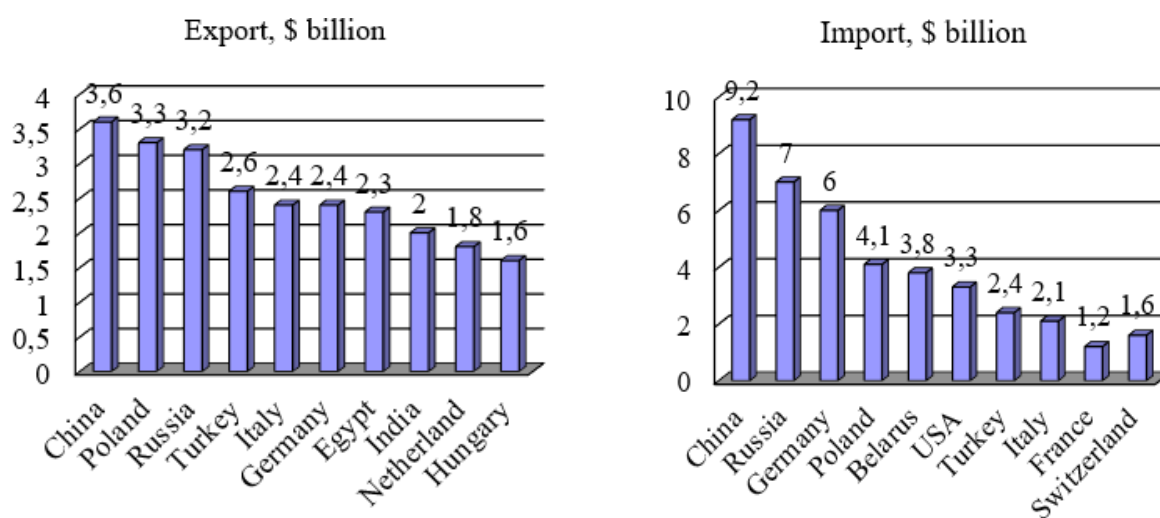
The degree of Ukraine's participation in globalization processes, the ability to get mostly positive results from it, largely depend on ensuring high economic growth, foreign policy with countries or groups of countries that objectively have close strategic interests.

The need for a holistic view of the state of the domestic and foreign markets of Ukraine determines the need to study these issues in the context of the growing openness of national economies. Based on the above, the study of the impact of foreign trade and directions of its development, establishes a special significance and relevance.

Actually, Ukraine is moving towards greater openness of trade and has (formally) relatively open regulatory regime, although with many informal obstacles to the development of foreign trade.

The results of foreign trade in 2019 are slightly different from 2018. Ukraine continues to supply raw materials and agricultural products, and imports petroleum products, polymer products and chemical fertilizers, as well as many finished goods.

In the top 10 countries of Ukraine's exports, China, Poland and the Russian Federation occupied leading positions in 2019 (Fig. 1) [1]. According to the State Statistics Service, exports to China increased by more than 63% compared to 2018 and amounted to 3.6 billion dollars. Exports to Poland increased by 1.2%, or \$ 3.3 billion. Exports from Russia fell by 11.2% to \$ 3.2 billion a year.



**Figure 1.** Leading trade country partners of Ukraine, 2019

Ukraine increased export to Turkey by 11.3% in 2019, which in monetary terms amounted to 2.6 billion dollars. Despite the fact that with Italy export fell by 8%, in general, Ukraine supplied goods to this country for amount of \$ 2.4 billion. There was export growth to Germany (\$ 2.4 billion), Egypt (\$ 2.3 billion), and the Netherlands (\$ 1.8 billion). However, there was a decrease to India, which amounted to 2 billion dollars, and Hungary to 1.6 billion. In general, exports with EU countries increased by 3% and amounted to 20.8 billion dollars.

Exports fell to the United States by 12% (978.9 million), Iraq by 9% (\$ 584.4 million), Bulgaria 6% (\$ 482.2 million), Georgia 18% (\$ 392.6 million), Vietnam by 28% (\$ 95.5 million).

In 2019, Ukraine imported the largest number of goods from China (\$ 9.2 billion) with increasing by almost 21%. The second position ranked Russia (\$ 7 billion), although imports fell by 13.6%, and the third rank in import was hold Germany (\$ 6 billion) (Fig. 1).

Deliveries of goods took place from Poland for \$ 4.1 billion to Ukraine. During the 2019 year, imports from this country increased by 12.6%. Another neighboring country - Belarus - lost its position in imports, but only by 1%, which in monetary terms amounted to \$ 3.8 billion.

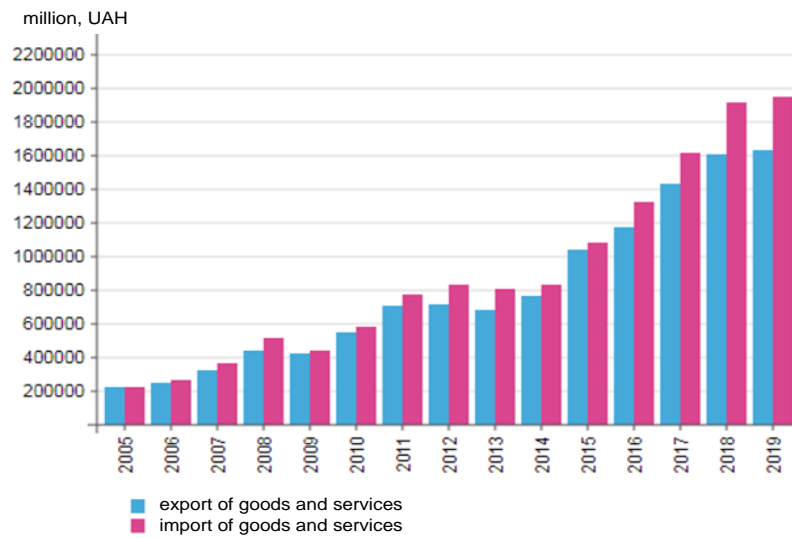
Imports from the United States accounted for about 11% (\$ 3.3 billion), although exports from Ukraine declined. Imports of goods from Turkey in 2019 amounted to \$ 2.4 billion, i.e. compared to the previous year there was an increase of 37.4%. Another import partners in top 10 were Italy (\$ 2.1 billion), France (\$ 1.7 billion) and Switzerland (\$ 1.6 billion).

Several countries had a significant impact on the growth of imports to Ukraine: Lithuania - an increase of 30% (\$ 1.4 billion), Japan - an increase of almost 31% (962.7 million) and Spain - an increase of 34% (844.2 billion dollars).

In addition, imports grew significantly in the previous two years (2017-2018), and in 2016 the growth took place against the background of a long decline in exports. That is why the positive

balance of trade in goods for 2014-2015 is rapidly deteriorating, and in 2019 reached minus 10.3 billion dollars, which is close to the record values of 2011-2013. Along with the growth of export-import operations, imports to Ukraine in recent years are chronically ahead of exports, and their difference sometimes reaches 8% of GDP (Fig. 2) [2].

There is another negative trend in 2019: reduction in export growth. At the same time, the increase in imports also decreased. However, both in absolute and relative terms, export growth declined faster. Moreover, this negative trend has been going on since 2016.



**Figure 2.** Export-import operations of Ukraine, 2005-2019

Unfortunately, after 3 years of growth, exports of goods did not reach the mark of 2014, when there was the first significant collapse of industry and all foreign trade. At that time, \$ 54 billion worth of goods were exported. Nevertheless, supplies of imported products in 2019 have already overcome the crisis of 2014, when goods were imported for \$ 52.6 billion.

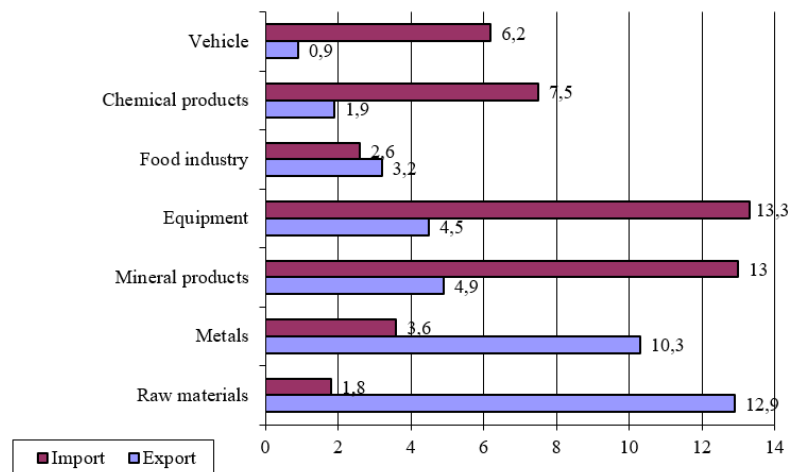
Unfortunately, after 3 years of growth, exports of goods did not reach the mark of 2014, when there was the first significant collapse of industry and all foreign trade. At that time, \$ 54 billion worth of goods were exported. However, supplies of imported products in 2019 have already overcome the crisis of 2014, when goods were imported for \$ 52.6 billion.

To ensure the growth of exports in value terms in 2019 by 5.8%, Ukrainian exporters had to ensure the export of 12% more cargo by weight. That is, the unit price of products exported from Ukraine fell again. This indicates a further increase in the share of raw materials in exports, which confirms the analysis of the structure of merchandise exports. And mainly raw materials in the form of crop products: it was exported in 2019, 65.8 million tons against 42.8 million tons in 2018, or as much as 53.7% - against an average growth rate of 5.9% [3].

Accordingly, each ton of products exported from Ukraine in 2019 cost even less than a year earlier - \$ 300 against \$ 317. However, each ton of imported products on the contrary rose in price from \$ 776 to \$ 800.

In 2019 compared to 2018, exports of food and agricultural products (+ 19%), as well as mineral products (+ 15%) grew the most in value terms (Fig. 3) [1]. At the same time, exports of food industry products (processing) increased on a small scale - by about 5%. Only due to increased exports of sunflower oil. The main growth in both industries was provided by purely raw materials: grain and ore.

In other industries either the approximate stability of supplies was maintained (in particular, in mechanical engineering, chemistry, light industry), or exports decreased significantly: in metallurgy by 12%, in woodworking by 10%.



**Figure 3.** Sectoral structure of Ukraine's foreign trade in 2019, billion dollars

In the metal markets in the second half of 2019, prices began to fall, which led to a reduction in both physical and value of exports. As a result, the sectoral structure of exports in 2019, compared to 2018, has changed due to a significant increase in exports of agricultural products and a reduction in exports of processing industries (including metallurgy and woodworking).

At the forefront of goods exported in 2019, traditionally for recent years is only raw materials and semi-finished products of primary processing. The difference from the previous year is that the raw materials of crop production have greatly moved industrial goods. If in 2018 5 items were represented by metallurgy and another conditionally industrial (twisting of wires for the automotive industry), then in 2019 in the top ten were 6 crop products, 3 metallurgy and wires.

The disappearance of large volumes of exports of goods of the first or second redistribution and the occupation of their place by purely raw materials - this is certainly another step towards further degradation of the economy. The share of advanced goods in total exports is more than half - 52.5%. In addition, this clearly demonstrates the poor diversity of Ukrainian exports.

In general, Ukraine contradicts global trends, supplies to international markets those goods, and services whose share in global sales ceases (ferrous metals, ores, agricultural raw materials, transportation services). The share of high-tech goods and services that determine the prospects of the world economy in Ukrainian exports is too low.

## 2. Foreign trade between Ukraine and Turkey

Turkey is one of the countries to which exports from Ukraine grew in 2019. The legal framework for cooperation between Ukraine and Turkey has reached more than 80 documents, formalizing relations in most areas of bilateral cooperation. Cooperation was also quite well institutionalized, in 2011 the parties established a Strategic Council of the highest level as a symbol of the priority of bilateral relations in the system of regional relations.

Among the concluded Ukrainian-Turkish documents, the key ones include such activities:

- agreements on trade and economic cooperation;
- avoidance of double taxation;
- promotion and mutual protection of investments;

- cooperation in the fight against crime;
- international road transport;
- maritime merchant shipping;
- cultural cooperation [4].

An important element of Ukrainian-Turkish cooperation has traditionally always been their focus on European integration. Despite the different levels of integration with the EU (Turkey has been an associate member of the EU since 1963, has been a member of the customs union with the EU since 1996), the processes of Europeanization are a common denominator of social transformations in both countries.

Ukraine and Turkey decided to create a free trade zone in 2018. Back in the 1990s, the need to intensify economic cooperation with Ukraine's regional leader and important strategic partner, the Republic of Turkey, was considered. In the 2000s, the priority of such cooperation was the creation of a bilateral agreement on a free trade area. Work on the agreement was suspended in 2013, primarily due to state policy. Ukraine has embarked on a political and economic rapprochement with Russia and the Customs Union, while Turkey is preparing for the presidential election, focusing on resolving domestic political issues.

In 2016, the issue of the trade zone became relevant. However, the signing deadline was constantly postponed. Positions on most items of the document were agreed between Ukraine and Turkey before July 2017. In the same year, in preparation for the framework agreement, they signed a bilateral intergovernmental agreement on mutual assistance and investment protection and a protocol amending the agreement to avoid double taxation. However, each party tries its best to protect its own economic interest.

The main problematic aspects in the negotiation process were different approaches to interstate trade in agro-industrial products. Initially, there was a proposal not to consider the agricultural sector, creating an FTA only for trade in industrial goods. However, this is a potential advantage for Ukraine. After all, thanks to the existence of a customs union between Ankara and Brussels, the Turkish market is still open for industrial products, while the Ukrainian market is relatively protected from the mass supply of Turkish industrial goods.

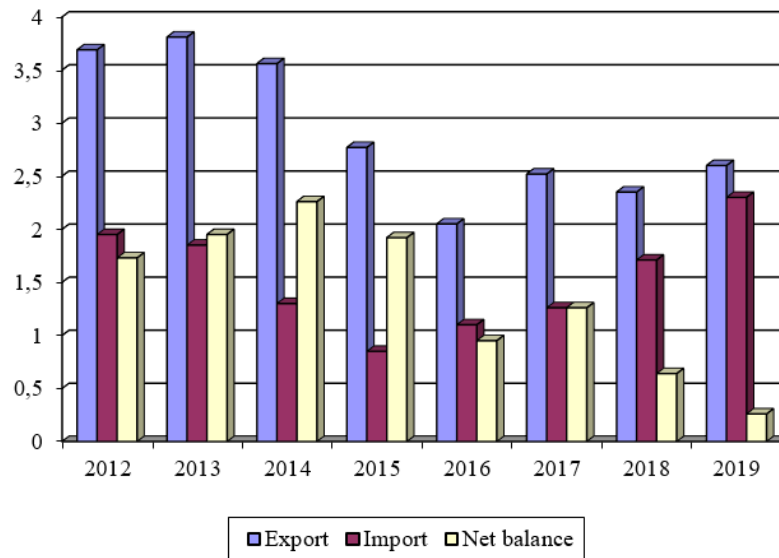
In general, Turkey has become one of the few large countries with which Ukraine has a positive balance of trade. Every year, the export revenue from trade with Turkey is \$ 1 billion - \$ 1.2 billion more than the amount that Ukraine pays for Turkish imports. Therefore, there are restrictions on the supply of Ukrainian food products from Turkey due to the establishment of serious customs barriers. And one of the conditions of the FTA is their abolition, which does not cover the interests of Turkey. Accordingly, the negotiations came to a standstill. The only thing that has been achieved is the formation of quotas for duty-free supply of certain types of Ukrainian agricultural products, raw materials or with a low degree of processing.

The purpose of the agreement for Ukraine is to liberalize access to the Turkish market for all finished food products with high added value. The course of negotiations is also influenced by the fact that in many commodity positions the countries directly compete in world markets. Earlier, the creation of a free trade zone was predicted in 2016. Currently, trade between Ukraine and Turkey is expected to reach \$ 10 billion in 2021 after the signing of the free zone agreement [5].

During 2012-2018, merchandise exports from Ukraine to Turkey decreased by 36.3%, from 3.69 to 2.35 billion dollars, while imports initially decreased from 1.95 to 0.85 billion dollars due to the economic crisis in Ukraine in 2015, rapidly resumed growth in the post-crisis period, reaching 1.71 billion dollars in 2018. As a result, the positive trade balance of Ukraine with Turkey decreased almost threefold - from 1.73 billion dollars in 2012 to 0.64 billion in 2018. Accordingly, the ratio of export coverage to imports, increasing due to the crisis decline in imports from 1.9 to 3.3 in 2012-2015, fell to 1.4 in 2018 (Fig. 4) [1].

In two months of 2019, trade between Ukraine and Turkey increased by 28%. Despite the fact that in 2018 it decreased by 3.9% compared to 2017. In general, in 2018, Turkey took third place in exports of agricultural products to Ukraine (\$ 382.1 million).

The reason for the negative trends is the significant concentration of ferrous metals in the structure of Ukraine's exports to Turkey. The share of ferrous metals in Ukraine's merchandise exports to Turkey during 2012-2018 was in the range of 47-54%, and the value of their exports during this time decreased from 2.0 to \$ 1.1 billion. This is due, on the one hand, to the partial destruction of Ukraine's production potential because of hostilities and the temporary occupation of industrial facilities in the east, and on the other - with the global overcapacity in the metallurgical sector, which manifested itself after world financial and economic crisis [6].



**Figure 3.** Foreign trade operations between Ukraine and Turkey

Other significant commodity groups in Ukrainian exports to Turkey are seeds and fruits of oilseeds (13.7%), cereals (7.8%), residues and waste from the food industry (5.5%). Thus, exports are excessively concentrated and have a pronounced raw material character. Instead, imports of goods to Ukraine from Turkey are much more diversified, based mainly on high-tech products with a high level of added value: machinery and equipment (9.5%), edible fruits (9.1%), vehicles (8.7%) , electrical equipment (6.2%) [1].

Turkey is one of Ukraine's largest trading partners and ranks 6th among buyers and third among agri-food suppliers. The trade balance of agricultural products between Ukraine and Turkey is positive for Ukraine. Thus, in 2017, domestic agri-food products worth \$ 928.9 million were exported, while imports from Turkey amounted to \$ 293.1 million.

The main items of agri-food exports from Ukraine to Turkey are soybeans (30%), corn (11%), sunflower oil (11%), wheat (11%), and bran (9%). Over the past 5 years, a significant breakthrough has occurred in the supply of butter, sugar and legumes. Thus, in 2017, sugar was sold for \$ 24.5 million, butter for \$ 24.2 million, as well as fresh legumes for \$ 20.1 million and chilled beans for \$ 15.3 million [1].

Ukraine is increasingly expanding the range of products supplied to Turkey, diversifying its product lines. If five years ago 126 types of agri-food products were exported to Turkey, in 2017 there were already 145 of them. We managed to start selling legumes and soybean meal, margarine, malt, wines, vermouth and beer, as well as nuts.

Thus, given the import-oriented nature of the Ukrainian economy, trade with Turkey is extremely effective in maintaining the macroeconomic stability of Ukraine's economy. However, in the long run, Ukraine's position in trade and economic relations is weaker than that of Turkey. Foreign trade between Ukraine and Turkey has significant potential, but it's not realized. Unfortunately, Ukraine's

foreign trade cooperation with Turkey tends to weaken the position of Turkish importers in the national market of Ukraine, the sharp decline in exports to Turkey, the asymmetry of mutual access to markets.

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