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Зміст

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Chapter 1: ECONOMIC BASES OF TRADE

International trade is a factor and a product of the economic development of nations. Similarly, the evolution of the trade theory reflects the ways nations were addressing basic economic problems. During the period from the sixteenth to the middle eighteenth century Britain, Spain, France, and Netherlands were the most developed countries with a high level of government intervention in the economy.

Their governments were concerned with the ways of maintaining their own power and wealth. The economic philosophy that properly reflected these goals was known as mercantilism.

Historical features...Сховати

Mercantilism was the main economic system of trade utilized from the 16th to 18th century. Mercantilist theorists believed that the amount of wealth in the world was static. Thus, European nations took several strides to ensure their nations accumulated as much of this wealth as possible. The goal was to increase a nation's wealth by imposing government regulation that oversaw all of the nation's commercial interests. It was believed national strength could be maximized by limiting imports via tariffs and maximizing exports

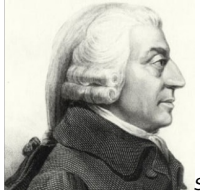
Mercantilism was popularized in Europe during the 1500s. The system was based on the understanding that a nation's wealth and power were best served by increasing exports and collecting precious metals, such as gold and silver. Mercantilism replaced the older, feudal economic system in Western Europe, leading to one of the first occurrences of political oversight and control over an economy. At the time, England, the centre of the British Empire, was small and contained relatively few natural resources. Thus, to grow its wealth, England introduced fiscal policies, including the Sugar Act and Navigation Acts, to move colonists away from foreign products and create another incentive for buying British goods. The resulting favourable balance of trade was thought to increase national wealth.

The Sugar Act of 1764 introduced high customs for sugar and molasses imported from outside of England and the British colonies. Similarly, the Navigation Act of 1651 was implemented to ensure foreign vessels would not be able to engage in trade along its coast, and also required colonial exports to first pass through British control before being redistributed throughout Europe. Great Britain was not alone in this line of thinking. The French, Spanish and Portuguese competed with the British for wealth and colonies; it was thought no great nation could exist and be self-sufficient without colonial resources (Investopedia, 2018).

Mercantilists argued that the best way for a nation to enjoy faster growth was to export more than it imported. The revenue would be a real inflow of gold. Since the amount of gold was fixed in the short run, not all nations could have such inflows simultaneously and gains from trade might be enjoyed only at the expense of the other nations. That is why mercantilist advocated import restrictions and export promotion.

Mercantilists' views were challenged by Adam Smith who advocated free trade based on absolute advantages of nations. He proved that the advantages of international division of labour and specialisation would be shared by all nations who may benefit simultaneously from free international trade. Thus, when nations specialise in industries where they have absolute factor advantages, gains from trade come to every nation and not at the expense of others and there is no need for government intervention that only deteriorates allocation of resources and productivity. This is the most important contribution of Adam Smith to international trade theory and policies. What he did not explain, was the case when a nation had absolute advantages in the production of all goods (Absolute, 2009).

Historical features...Сховати



Scottish social philosopher and political economist Adam Smith wrote The Wealth of Nations and achieved the first comprehensive system of political economy. Adam Smith was an economist and philosopher who wrote what is considered the "bible of capitalism," The Wealth of Nations, in which he details the first system of political economy.

Smith's ideas are a reflection on economics in light of the beginning of the Industrial Revolution, and he states that free-market economies (i.e., capitalist ones) are the most productive and beneficial to their societies. He goes on to argue for an economic system based on individual self-interest led by an "invisible hand," which would achieve the greatest good for all.

In time, The Wealth of Nations won Smith a far-reaching reputation, and the work, considered a foundational work of classical economics, is one of the most influential books ever written (Biography, 2018).

Smith views' weakness was overcome by David Ricardo who developed the theory of *comparative advantages*to prove that mutually beneficial trade could occur even when one nation was absolutely more efficient in the production of all goods. According to Ricardo, nations specialise in industries where they have lower opportunity cost and trade based on these comparative advantages all the countries enjoy gains from international trade. This is one of the most important and still unchallenged principles of economic theory and practice. David Ricardo's views were based on the labour theory of value that stresses on the role of labour in value creation. Ricardo did not analyse the effect of resource endowments on productivity and international specialisation and the influence of trade on the distribution of income.

In the 1930s two Swedish economists Eli Heckscher and Bertil Ohlin developed a model of factor endowment to study these issues. They asserted that international trade is based on differences in factor

endowments of nations. Because of the different endowments of factors of production nations have comparative advantages in different industries and their relative price levels differ. That is why each nation will export the goods intensive in its relatively abundant and cheap factor and import the goods intensive in its relatively scarce and expensive factor. Thus, all nations will enjoy gains from trade simultaneously.

Historical features...Сховати

Eli Filip Heckscher (November 24, 1879 – December 23, 1952) was a Swedish political economist and economic historian. He wrote a classic book on mercantilism, as well as several contributions to economic theory. In a famous article of 1919, he argued for free trade, putting forward the hypothesis that the comparative trading advantage of different countries is due to differences in productive factors. Eli Heckscher was born on November 24, 1879. According to a bibliography published in 1950, Heckscher had as of the previous year published 1148 books and articles, among which may be mentioned his study of Mercantilism, translated into several languages, and a monumental economic history of Sweden in several volumes. As Heckscher died on November 26, 1952, in Stockholm, he could not be given a posthumous Nobel Prize for his work on the Heckscher-Ohlin Theory (Policonomics, 2018).

Bertil Ohlin, in full Bertil Gotthard Ohlin, (born April 23, 1899, Klippan, Sweden – died August 3, 1979, Vålädalen), Swedish economist and political leader who is known as the founder of the modern theory of the dynamics of trade. In 1977 he shared the Nobel Prize for Economics with James Meade. Ohlin studied at the University of Lund and at Stockholm University under Eli Heckscher. He developed an early interest in international trade and presented a thesis on trade theory in 1922. Ohlin studied for a period at both the University of Oxford and Harvard University; at the latter institution he was influenced by Frank Taussig and John H. Williams. He obtained his doctorate from Stockholm University in 1924 and the following year became a professor at the University of Copenhagen. In 1930 he succeeded Heckscher at Stockholm University. At this time Ohlin became engaged in a controversy with John Maynard Keynes, contradicting the latter's view that Germany could not pay war reparations. Ohlin saw reparations as nothing more than large international transfers of buying power. By 1936 Keynes had come around to Ohlin's earlier view. Their debate over reparations contributed to modern theories of unilateral international payments (The Editors, 2018).

After the World War II, Heckscher-Ohlin theory was challenged by the evolution of international trade that it could not explain. Significant flows of intra-industry trade based on product differentiation, exports of goods intensive in nations relatively scarce and expensive factors (the so-called Leontief paradox), trade based on economies of scale, trade based on technological gaps and product cycles needed a new explanation. These issues were addresses by different theories. For example, Raymond Vernon developed the theory of international product life cycle to explain trade based on technological gaps. He asserts that the initial production of a new product usually requires skilled labour, which can be replaced by a skilled labour once the product acquires mass acceptance and is standardised. Thus, the comparative advantage held by the industrialised nations that introduce new products shifts to lower-wage nations. Vernon's contribution to the theory of internationalisation of business is that he put together explanations of international trade and investment flows that were following trade. Later this theory was extended to explain internationalisation of industries in the international industry life cycle model.

Stefan Linder gave an explanation of interindustry trade in his theory of overlapping demand, asserting that international trade in manufactured goods will be greater between nations with similar levels of per capita income than between those with dissimilar per capital income level.

A coherent explanation of modern international trade was given by Michael Porter who developed the theory of competitive advantages of nations. He argues that competitiveness and hence international trade is determined by four factors encapsulated in the Porter Diamond. These are Factor Conditions, Demand Conditions, the Structure of Firms and Rivalry and lastly the strength and existence of Related Firms and Supporting Industries. Hence, industry clusters appear that create and enhance competitiveness of local firms. An important contribution of Porter's theory is that he associates competitive advantages of nations with firm's decision making. These are really firms, that conduct international trade, not countries.

In the 1990s, Alan Rugman's approach has extended the concept of Porter's "single" diamond in order to explain the evidence for further globalization revealed by some recent surveys, that the more international a firm was, the more it derived its competitive advantages from its foreign affiliates. This theory reflects the prevalence of trade-related investment and investment-related trade flows and it is a successful effort to put together the views explaining contemporary growth of international trade and investment. Rugman argues that the deepening structural integration of the world economy and the burgeoning of alliance capitalism are widening the geographical scope for creating or augmenting firm-specific competencies and learning experiences. Any attempt to identify the geographical sources of such advantages must embrace the diamonds of other countries, particularly those with which the home-country firms have the most dealings by way of trade, FDI and non-equity co-operative ventures.

In economics, the principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources. Adam Smith first described the principle of absolute advantage in the context of international trade, using labour as the only input. Since absolute advantage is determined by a simple comparison of labour productiveness, it is possible for a party to have no absolute advantage in anything (Absolute, 2009); in that case, according to the theory of absolute advantage, no trade will occur with the other party (Absolute Advantage, 2009). It can be contrasted with the concept of comparative advantage which refers to the ability to produce specific goods at a lower opportunity cost.

The main concept of absolute advantage is generally attributed to Adam Smith for his 1776 publication 'An Inquiry into the Nature and Causes of the Wealth of Nations' in which he countered mercantilist ideas (Absolute, 2009; Marrewijk, 2007). Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage (Absolute, 2009) Smith also stated that the wealth of nations depends upon the goods and services available to their citizens, rather than their gold reserves (Harrington, 2009). While there are possible gains from trade with absolute advantage, the gains may not be mutually beneficial. Comparative advantage focuses on the range of possible mutually

beneficial exchanges.

Example 1

Table 1 Hours of work necessary to produce one unit

Country	Cloth	Wine
England	80	100
Portugal	120	90

According to Table 1, England commits 80 hours of labour to produce one unit of cloth, which is fewer than Portugal's hours of work necessary to produce one unit of cloth. England is able to produce one unit of cloth with fewer hours of labour; therefore, England has an absolute advantage in the production of cloth. On the other hand, Portugal commits 90 hours to produce one unit of wine, which is fewer than England's hours of work necessary to produce one unit of wine. Therefore, Portugal has an absolute advantage in the production of wine.

If the two countries specialize in producing the good for which they have the absolute advantage, and if they exchange part of the good with each other, both of the two countries can end up with more of each good than they would have in the absence of trade (Bruce, 2013; Teofilo, 2005). In the absence of trade, each country produces one unit of cloth and one unit of wine. Here, if England commits all of its labour for the production of cloth for which England has the absolute advantage:

Total of hours=80+100=180

England produces 2.25 units of cloth.

(80+100)÷80=2.25 units of cloth.

On the other hand, if Portugal commits all of its labour for the production of wine:

Total of hours =90+120=310

Portugal produces 2.33 units of wine:

(90+120)÷90=2.33 units of wine.

By exchanging the 2.25 units of cloth and the 2.33 units of wine, both of the two countries can end up with more of each good than they would have in the absence of trade.

Example 2

Table 2 Hours of work to commit after the specialization

Country	Cloth	Wine
England	80 + 100	0
Portugal	0	90 + 120

You and your friends decided to help with fundraising for a local charity group by printing T-shirts and making birdhouses.

Scenario 1: One of your friends, Gina, can print 5 T-shirts or build 3 birdhouses an hour. Your other friend, Mike, can print 3 T-shirts an hour or build 2 birdhouses an hour. Because your friend Gina is more productive at printing T-shirts and building birdhouses compared to Mike, she has an absolute advantage in both printing T-shirts and building birdhouses.

Scenario 2: Suppose Gina wasn't as agile with the hammer and could only make 1 birdhouse an hour, but she took a sewing class and could print 10 T-shirts an hour. Mike on the other hand takes woodworking and so he can build 5 birdhouses an hour, but he doesn't know the first thing about making T-shirts, so he can only print 2 T-shirts an hour. While Gina would have the absolute advantage in printing shirts, Mike would have an absolute advantage in building birdhouses.

Comparative advantage is what a country is the best at producing, when compared to other countries, for the lowest opportunity cost. A country has a comparative advantage when it is better than any other country in producing something, and it doesn't give up as much by producing it (Maneschi, 1998).

It's more likely to be goods, like jets, luxury automobiles, or cheese, than a service. That's because goods are easier to export.

But some countries do have an advantage in services, such as banking and entertainment. (Source: Comparative Advantage, Bureau of Labor Statistics. Comparative Advantage, Financial Times.)

For example, oil-producing nations have a comparative advantage in chemicals. That's because the oil provides a cheap source of material for the chemicals when compared to countries without it. As a result, Saudi Arabia, Kuwait, and Mexico are competing with U.S. chemical production firms.

Their opportunity cost is low. They don't have to give up much to produce chemicals. That's because a lot of the raw ingredients are produced in the oil distillery process. (Source: "Robust Growth and the Strong Dollar Set Pattern for Import and Export Prices, Bureau of Labor Statistics).

What It Means to You? Comparative advantage is what you do best while giving up the least. If you're a great plumber and a great babysitter, you should become a plumber.

You'll make more money as a plumber and can buy more babysitting services. Even if you are the best babysitter in the world, you'll be able to buy fewer plumbing services. That's because you've given up the opportunity of making more money as a plumber (BLS, 2009).

David Ricardo created the theory of comparative advantage. He argued that a country boosts its economic growth the most by focusing on the industry in which it has the largest comparative advantage.

For example, England was superior in manufacturing cloth. Portugal was better at making wine. Ricardo correctly predicted that England would stop making wine, and Portugal would stop making cloth. England made more money by trading its high-value cloth for Portugal's high-value wine, and vice versa. Why make inferior wine yourself when you can get a larger quantity of superior wine by selling your cloth?

This theory of comparative advantage became the rationale for free trade agreements. Ricardo developed the comparative advantage theory to combat trade restrictions on wheat in England. That's because it was lower cost and higher quality when grown in countries with the right climate and soil conditions. England received more value by exporting products that required skilled labour and machinery. It could receive more wheat in trade than it could grow on its own (The Theory, 2015).

The theory of comparative advantage explains why trade protectionism doesn't work in the long run. Political leaders are always under a lot of pressure from their local constituents to preserve jobs by raising tariffs. That temporarily protects local industries from overseas competition. However, it hurts the nation in the long run by allowing the country to waste resources on poor-performing industries. It also forces consumers to pay higher prices to buy lower-quality goods.

David Ricardo started out as a successful stockbroker, making $100 million in today's dollars. After reading Adam Smith's 'The Wealth of Nations', he became an economist. He was the first person to point out that significant increases in the money supply create inflation. This theory is known as monetarism.

He also developed the law of diminishing marginal returns, one of the most important concepts in microeconomics. It states that there comes a point in production where the output isn't worth the additional input in raw materials (Dixit, 2013).

Example

United States: America's comparative advantage is its large land mass, bordered by two oceans. It

also has lots of fresh water, arable land, and available oil. It has a diverse population with a common language and national laws. For more, see The Power of the U.S. Economy.

Those all give U.S. businesses cheap natural resources, protection from land invasion, and a large test market to support innovation of new products and services. As a result, the United States became a global leader in banking, aerospace, defence equipment, and technology. For more, see the 4 Major Things the U.S. Is Good at Producing and How Silicon Valley Is America's Innovative Advantage.

Absolute and comparative advantage are two important concepts in international trade that largely influence how and why nations devote limited resources to the production of particular goods. Though the global economy is highly complex, the economics of food production offer a straightforward illustration of both of these key concepts (Baumol, 2003).

Though it is not economically feasible for a country to import all of the food needed to sustain its population, the types of food a country produces can largely be affected by the climate, topography and politics of the region. Spain, for example, is better at producing fruit than Iceland. The differentiation between the varying abilities of nations to produce goods efficiently is the basis for the concept of absolute advantage.

If Japan and the United States can both produce cars, but Japan can produce cars of a higher quality at a faster rate, then it is said to have an absolute advantage in the auto industry. A country's absolute advantage or disadvantage in a particular industry plays a crucial role in the types of goods it chooses to produce. In this example, the U.S. may be better served to devote resources and manpower to another industry in which it has the absolute advantage, rather than trying to compete with the more efficient Japan (O'Sullivan, 2003).

The focus on the production of those goods for which a nation's resources are best suited is called specialization. Given limited resources, a nation's choice to specialize in the production of a particular good is also largely influenced by its comparative advantage. Whereas absolute advantage refers to the superior production capabilities of one nation versus another, comparative advantage is based on the concept of opportunity cost. The opportunity cost of a given option is equal to the forfeited benefits that could have been gained by choosing the alternative. If the opportunity cost of choosing to produce a particular good is lower for one nation than for others, then that nation is said to have a comparative advantage.

Assume that both France and Italy have enough resources to produce either wine or cheese, but not both. France can produce 20 units of wine or 10 units of cheese. The opportunity cost of each unit of wine, therefore, is 10 / 20, or 0.5 units of cheese. The opportunity cost of each unit of cheese is 20 / 10, or 2 units of wine. Italy is able to produce 30 units of wine or 22 units of cheese. Italy has an absolute advantage for the production of both wine and cheese, but its opportunity cost for cheese is 30 / 22, or 1.36 units of wine, while the cost of wine is 22 / 30, or 0.73 units of cheese. Because France's opportunity cost for the production of wine is lower than Italy's, it has the comparative advantage despite Italy being the more efficient producer. Italy's opportunity cost for cheese is lower, giving it both absolute and comparative advantage (Steven, 2010).

Since neither nation can produce both items, the most efficient strategy is for France to specialize in wine production because it has the comparative advantage and for Italy to produce cheese. International trade can enable both nations to enjoy both products at reasonable prices because each has specialized in the efficient production of one item.

Partial equilibrium is a condition of economic equilibrium which takes into consideration only a part of the market, ceteris paribus, to attain equilibrium.

As defined by George Stigler, "A partial equilibrium is one which is based on only a restricted range of data, a standard example is price of a single product, the prices of all other products being held fixed during the analysis (Jain, 2006).

The supply and demand model are a partial equilibrium model where the clearance on the market of some specific goods is obtained independently from prices and quantities in other markets. In other words, the prices of all substitutes and complements, as well as income levels of consumers, are taken as given. This makes analysis much simpler than in a general equilibrium model which includes an entire economy.

Here the dynamic process is that prices adjust until supply equals demand. It is a powerfully simple technique that allows one to study equilibrium, efficiency and comparative statics. The stringency of the simplifying assumptions inherent in this approach make the model considerably more tractable, but may produce results which, while seemingly precise, do not effectively model real-world economic phenomena.

Partial equilibrium analysis examines the effects of policy action in creating equilibrium only in that particular sector or market which is directly affected, ignoring its effect in any other market or industry assuming that they are being small will have little impact if any. Hence this analysis is considered to be useful in constricted markets.

Léon Walras first formalized the idea of a one-period economic equilibrium of the general economic system, but it was French economist Antoine Augustin Cournot and English political economist Alfred Marshall who developed tractable models to analyse an economic system.

Assumptions:

1. Commodity price is given and constant for the consumers.
2. Consumers' taste and preferences, habits, incomes are also considered to be constant.
3. Prices of prolific resources of a commodity and that of other related goods (substitute or complementary) are known as well as constant.
4. Industry is easily availed with factors of production at a known and constant price compliant with the methods of production in use.
5. Prices of the products that the factor of production helps in producing and the price and quantity of other factors are known and constant.
6. There is perfect mobility of factors of production between occupation and places.
7. The above-mentioned points relate to a perfectly competitive market but can be further extended to monopolistic competition, oligopoly, monopoly and monopsony markets (Jhingan, 2007).

Applications of partial equilibrium discusses, when does an individual, a firm, an industry, factors of production attain their equilibrium points:

1. A consumer is in a state of equilibrium when they achieve maximum aggregate satisfaction on the expenditure that they make depending on the set of conditions relating to his tastes and preferences, income, price and supply of the commodity etc.
2. Producers' equilibrium occurs when they maximize their net profit subject to a given set of economic situations.
3. A firm's equilibrium point is when it has no inclination in changing its production.

The minimum conditions of equilibrium:

In the short run:

Marginal Revenue = Marginal Cost.

In long run:

Marginal Cost = Marginal Revenue = Average Revenue = Long run Average Cost

It means that a firm is earning only a "normal profit" and has no intension to leave the industry. Equilibrium for an industry happens when there is normal profit made by an industry It is such a situation when no new firm wants to enter into it and the existing firm does not want to exit.

Only one price prevails in the market for a single product where the quantity of goods purchased by a buyer = total quantity produced by different firms. All the firms produce till that level where:

Marginal Cost=Marginal Revenue

In addition, the sails of the product at market price ruling at that point of time (Wikipedia, 2018).

Factors of production, i.e., land, labour, capital, and entrepreneurs are in equilibrium when they are

paid the maximum possible so as maximize the income. Here the Price = Marginal Revenue Product.

At this price it does not have any enticement to look for employment anywhere else.

The quantity of factors which its owners want to sell should be equal to the quantity which the entrepreneurs are ready to hire.

Limitations

- It is restricted to one particular portion of the economy.
- It lacks the ability to study the interrelations of all the parts of the economy.
- This analysis will fail if the improbable assumptions, which disconnect the study of specific market from the rest of the economy, are not taken into consideration.
- It has been unsuccessful in explaining the outcome of economic disturbance in the market that leads to demand and supply changes, moving from one market to another and thus instigating second- and third-order waves of change in the whole economy.

In partial equilibrium the welfare effects on consumers who purchase and the producers who produce in the market is distinguished by consumer surplus and producer surplus.

Consumer surplus

The amount that a consumer is ready to pay for a particular good minus the amount that the consumer actually pays. The amount that the consumer is willing to pay has to be greater (Suranovic, 2004).

In the graph given here, P1 is the price that a consumer is ready to pay for a particular product. But the producer may reduce the price to P2 expecting that either more people would buy at the reduced rate, or the person who was ready to pay P1 will purchase more of the same. The producer may further reduce the price to P3, again expecting more buyers or the same buyers purchasing more (Suranovic, 2004)

The price keeps on falling until P', where the demand and the supply curves intersect: their intersection is the equilibrium point. Hence the consumer surplus for first consumer can be calculated as P1 - P', decreasing for the second consumer to P2 - P', and so on. Thus, the total consumer surplus in the market can be obtained by summing up the three rectangles. The triangle with the purple outline to the left indicates that area (Suranovic, 2004)

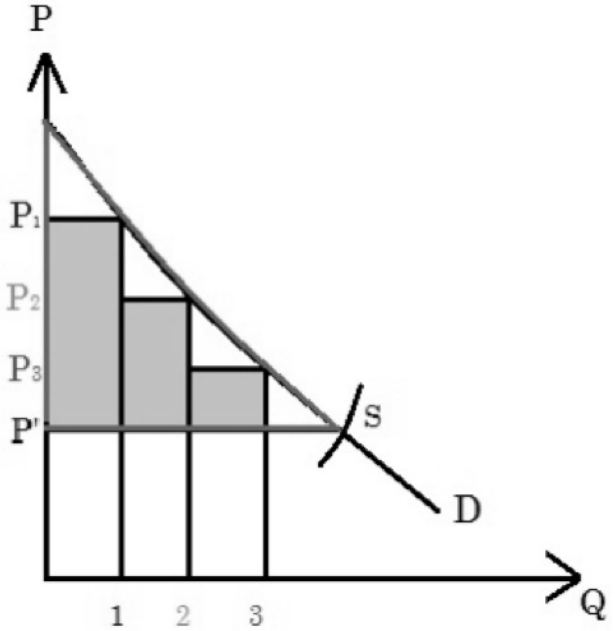


Figure 1. Consumer Surplus in the market

Figure 1 showing Consumer Surplus in the market, P refers to Price on the Y-axis, Q-refers to Quantity on X-axis, D-Demand Curve, S-Supply Curve.

Amount that a producer finally receives by selling a particular product minus the amount the producer is ready to accept for that good. The amount that the producer receives should be greater (Suranovic, 2004).

If only one unit of the commodity was demanded at the price P1, this becomes the price which the producer expects to receive. But if two units are demanded, the minimum price at which the producer would be ready to increase the supply shifts to P2. This continues and the final price that ultimately prevails in the market is P', the price which is obtained by the intersection of the demand and supply curve in the market. The producer's surplus here would be initial price minus the final price. And total consumer surplus in the market will be summation of the three rectangles (Suranovic, 2004).

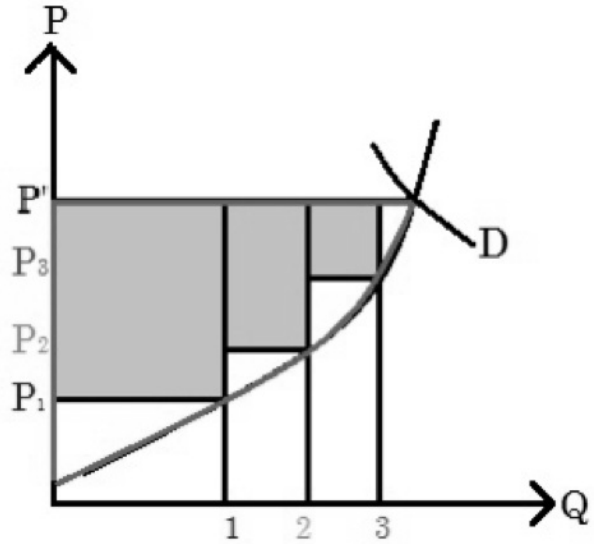


Figure 2. Producer Surplus in the market

Figure 2 showing Producer Surplus in the market, P refers to Price on the Y-axis, Q refers to Quantity

on X-axis, D- Demand Curve, S-Supply Curve. As against partial equilibrium analysis, general equilibrium analysis is concerned with economic system as a whole. It recognizes the fact that economic system is a network in which all the parts are mutually dependent on one another and in mutual interaction with one another.

Goods are either competitive or substitutes. Some goods are used in the manufacture of other goods. Factors of production are complementary to each other to the extent they can be substituted for each other, they are competitive also. Resources also face competitive demand from producers.

Therefore, change in the demand or supply of any commodity or factor of production sets in motion a chain reaction. A disturbance in one sector of the economy produces its repercussions on all sides. General equilibrium analysis is concerned with the overall effects of a disturbance.

Instead of taking only a few variables at a time, we take into consideration all the relevant variables which may affect the particular phenomenon in hand. In this type of analysis, all the side-effects of an economic disturbance are analysed in full.

An example will make the concept of general equilibrium clearer. Suppose the demand for India-manufactured consumer goods suddenly increases in Western Europe. Indian exports will increase thereby increasing output, employment and profits in the export industries. Resources will be diverted from other industries to the export industries.

The demand and prices of the substitute commodities will also increase. The increased demand for exports will have economy-wide effects. An all-round analysis of the repercussions of the economic disturbance increased demand for manufactured consumer goods for export can be done only through general equilibrium theory.

General equilibrium analysis deals with the equilibrium of the whole organisation in the economy consumers, producers, resource-owners, firms and industries. Not only should individual consumers and firms be in equilibrium in themselves but also in relation to each other.

Business firms enter product markets as suppliers, but they enter factor markets as buyers. Households, on the other hand, are buyers in product markets but suppliers in factor markets. General equilibrium prevails when both the product and factor markets are in equilibrium in relation to each other.

General equilibrium analysis serves many important purposes.

Firstly, it provides us with a theoretical tool to understand the economy in its entirely the mechanics of its working, it structure, and the major forces making it work. The theory is analysis of the interrelationships of the various sectors of an economy. As such, it helps us in knowing clearly the economy-wide implications of an economic change.

Secondly, we can apply general equilibrium theory to determine the primary, secondary and tertiary effects of an economic disturbance which has an intersectoral impact. Whenever there is an economic disturbance say, like the defence programmes in the wake of Chinese aggression in 1962 it has some immediate effects in one sector of the economy.

Gradually, the impact of such a disturbance is felt in other sectors. The whole economy goes into disequilibrium. Process of adjustment to the economic disturbances starts to establish a new equilibrium.

As Richard Leftwich put it, “First comes the big splash from the disturbance. Particular equilibrium analysis handles the splash. But waves and then ripples are set up from it, affecting one another and affecting the area of the splash. The ripples run farther and farther, becoming smaller and smaller, until eventually they dwindle away. The tools of general equilibrium are required for analysis of the entire series of readjustments”.

Thus, general equilibrium theory is of great value in stressing the interdependence of various parts of the economic system, which is easily lost sight of in the use of partial equilibrium theory in micro-economic analysis.

Failure to recognise this interdependence is responsible for many errors in popular reasoning on economic policy.

The practical importance of general equilibrium analysis cannot be questioned. Recently, it has proved extremely useful in different forms:

1. The general equilibrium theory is being put to extensive use in the study of the development and other major programmes of modern economics to ascertain their feasibility, their impact and requirements. Take, for example, the effect of defence preparations to meet the Chinese threat.

It meant a rearrangement of all the priorities. There was heavier demand for steel and other construction materials, as also the demand for woollens.

It also meant heavier imports. Prices of all these commodities increased, diverting resources to these industries and away from some others. Eventually, effects were felt over the entire economy. An assessment of the full impact of such a programme in advance could be possible only through general equilibrium analysis.

2. Professor Wassily Leontief accomplished the task of bringing general equilibrium theory to the practical level by building his input-output analysis. The use of computers and other high-speed calculating machines has made it possible for us to solve hundreds of equations to find out a solution.

Thus, input-output analysis has been put to a variety of uses. Since this analysis can throw light on the structure of an economy and the interdependence between its different parts, it has been extensively used in planning for smooth growth of the national and international economy.

3. General equilibrium analysis has found its most extensive use in welfare economics. In this branch of economics, we study the ‘best’ allocation of resources, given the objectives of society. The search for such an organization of the economy leads us to apply the methods of general equilibrium.

4. Monetary theory and policy have been revolutionised by the introduction of general equilibrium analysis. It is now widely recognized that a meaningful monetary policy must apply to all the assets in the economy which are related to all the goods, capital and labour markets. Such a monetary policy is nothing but a study of general equilibrium effects of government policy.

Table 3. Difference between Partial and General Equilibrium

Partial Equilibrium	General Equilibrium
• Developed by Alfred Marshall.	• Leon Walras was first to develop it.
• Related to single variable	• More than one variable or economy as a whole is taken into consideration
• Based on two assumptions: 1. Ceteris Paribus 2. Other sectors are not affected due to change in one sector.	• It is based on the assumption that various sectors are mutually interdependent. There is an effect on other sectors due to change in one.
• Other things remaining constant, price of a good is determined	•Prices of goods are determined simultaneously and mutually. Hence all product and factor markets are simultaneously in equilibrium.

The Ricardian model has two short comings:

- First, it does not allow for the study of the effects of trade on income distribution; everyone gains from trade in the Ricardian model, while we know in the real world some people lose from trade.
- Second, the Ricardian model does not explain differences in labour productivity amongst countries. In the real world, part of labour productivity is due to the resource endowment. Labour productivity is higher in countries with higher capital or land endowments.
- In addition, the constant opportunity cost is not a desirable property in the Ricardian model. This property leads to compete specialization which we do not observe very often in the real world.

Swedish Econ History Eli Heckscher (article 1919) and his student Bertil Ohlin who developed these ideas in his 1924 dissertation.

Explained trade on the bases of difference in resource endowment

- Shows that comparative advantage is influenced by:
  - Relative**factor abundance**(refers to countries)
  - Relative**factor intensity**(refers to goods)
- Is also referred to as the *factor-proportions theory*

The **Heckscher-Ohlin model**allows studying the impact of trade on income distribution and it partially explains labour productivity based on capital endowment. The main result of H-O model is expressed in H-O theorem. This theorem states that for example a capital-abundant country exports the capital-intensive good while the labour-abundant country exports the labour-intensive good.

Here's why:

- A *capital-abundant country*=> higher relative supply of K-intensive goods
- => Lower relative price of k-intensive good before trade
- The H-O theorem demonstrates that differences in resource endowments (as defined by national abundances) can be a reason for international trade to occur.

Assumptions H-O Model

- Two goods: An economy can produce two goods,

Shoes (QS), Computers (QC)

- Two Countries: Home and Foreign
- Two Factors of Production:

The production of these goods requires two inputs labour *L*and Capital K.

Supply of the two inputs are given and fixed

The two factors are perfectly mobile domestically (a long run view is taken here) within countries and immobile between countries.

- Technology

Same technologyin both countries.

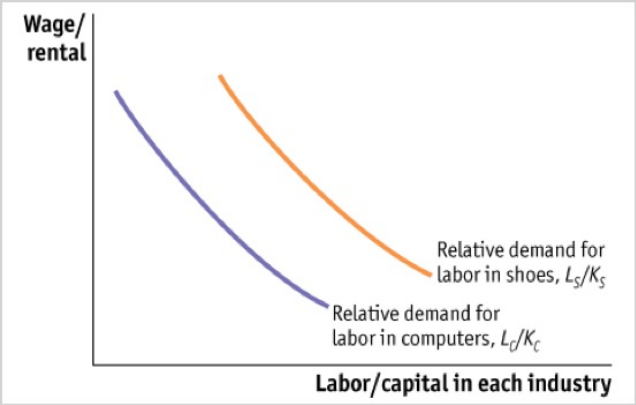
Constant Returns to Scale (CRS) production functions:

QS = QS(LS, KS)

QC = QC(LC, KC)

Production of computer is *capital-intensive,*and production of shoe is *labour-intensive*in both countries.$L_C/K_C<L_S/K_S$, (e.g., wage share of production cost in higher in shoes compared to computers)

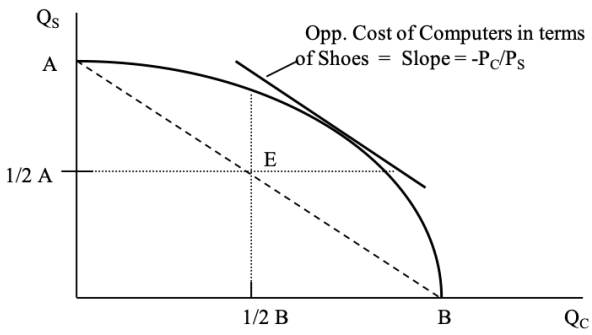
These two curves slope down just like regular demand curves, but in this case, they are *relative* demandcurves for labour (i.e., demand for labour divided by demand for capital).



- That is the labour/labour content in shoes are larger than computers.
- Perfect competition prevails in all markets and no transportation cost.
- The two countries differ only in their factor endowments (same tastes, same tech)

Production Possibility Frontier (PPF): Increasing Opportunity Economy

- Opp Cost of Shoes in terms of Computer increases as more computers are produced.



- Why do we get this result? Because resources are not equally suitable for production of all good!

Why PPF represents increasing opportunity cost? Why PPF is not a straight line? To see this consider will show that can do better than E (above the line) in the figure above:

A = $Q_S$produced if all resources are allocated to shoes production

B = $Q_C$produced if all resources are allocated to computer production

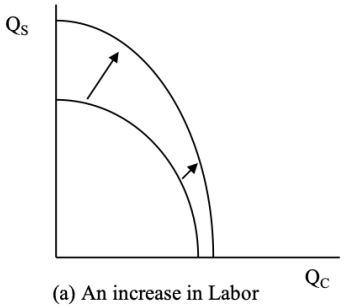
E = (½ A and ½ B) if ½ of all the resources (½ of all K and ½ of all L) are allocated to shoes and the other half to computers

Can do better than**E** (North East of E up to the PPF), if in shifting resources from K-intensive computers to L-intensive shoes if less than ½ capital and more than ½ Labour is released to the shoes sector.

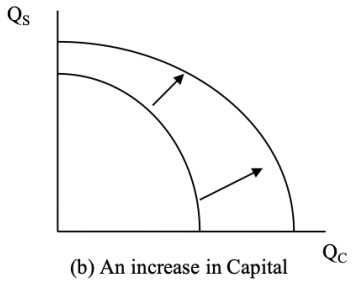
PPF, Resource Endowment and Technology

In general, PPF of two countries can be different for reasons of resource endowment or technology. Countries with identical resources and technology have identical PPF. To see how PPF's of two countries might be different consider the following exercises:

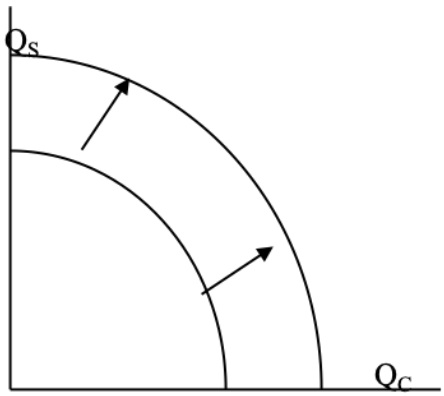
a) an increase in Labour endowment;
b) an increase in capital endowment;
c) an improvement in technology of production.



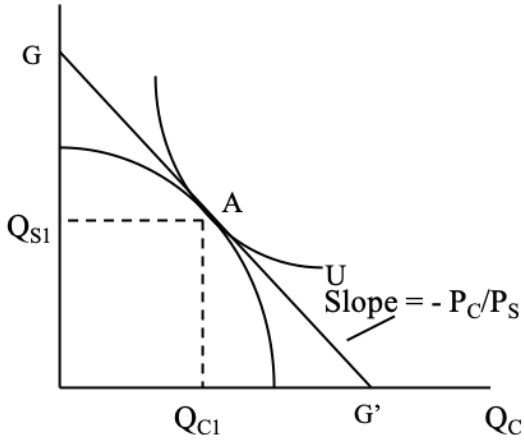
(a) An increase in Labor Endowment and the shift in PPF



(b) An increase in Capital Endowment and the shift in PPF



(c) An unbiased improvement in the technology of production



Production and Consumption in absence of International Trade

Equilibrium before International Trade

- In absence of international trade, the production mix of computers and shoes depends on domestic demand. In this economy demand is such that production takes place at point A on PPF, where PPF is tangent to the highest indifference curve.
- The slope of the PPF at the point of tangency determines domestic relative price of computers: P_C/P_S.
- Note that this line, GG' also measures the value of mix of production at point A. That is GG' represents GDP when production takes place at point A.
- To see this notice that: GDP = $P_C\, Q_{C1}+P_S Q_{S1}$

Heckscher-Ohlin Theorem:

Each country will **export**the good that **uses its abundant factor *intensively***.

To show this let's make the following assumptions:

- There are two countries (Home and Foreign) with:
  - **Sametastes & Sametechnology**
  - **And Different factor endowment**
- In particular let's assume L/K <*L*/K**
  - i.e. Home is Capital **Abundant,** Foreign is Capital**Scarce**

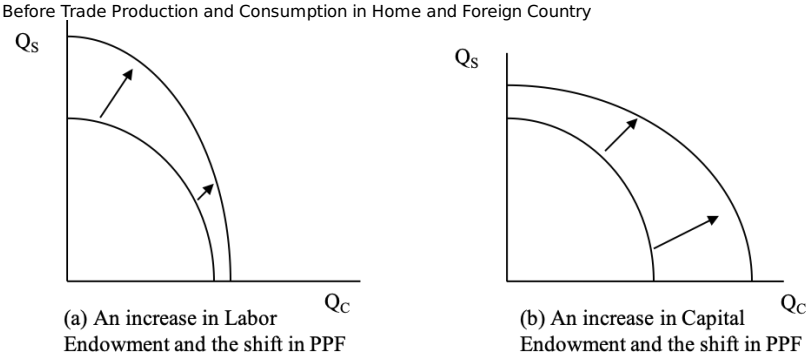
Then under these assumptions the theorem implies that Home country exports capital intensive computers and imports labour intensive shoes.

Before trade

Home production and consumption takes place at point A at autarky price ratio of P_C/P_S. Before trade Foreign production and consumption takes place at point A* at autarky price ratio of P^*_C/P^*_S . Since Home is relatively Labour scarce (capital abundant) its autarky relative price of Computer would be lower

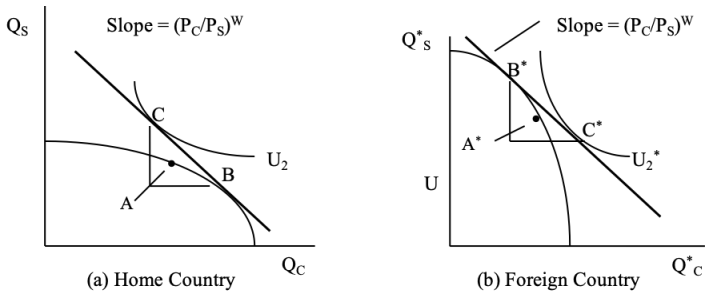
than that of the Foreign country $P_C/P_S < P^*_C/P^*_S$.

Before Trade Production and Consumption in Home and Foreign Country



Once trade opens up Home will export Computers and Foreign will export Shoes. International prices will be somewhere between the autarky prices of the two countries: $P_C/P_S < (P_C/P_S)^W < P^*_C/P^*_S$

Post-Trade: Production and Consumption of Home and Foreign Country



At $(P_C/P_S) < (P_C/P_S)^W < P^*_C/P^*_S$ capital abundant Home exports capital intensive computer and Labour abundant Foreign exports Labour intensive shoes.

Aggregate Economic Efficiency

The H-O model demonstrates that when countries move to free trade, they will experience an increase in aggregate efficiency.

The change in prices will cause a shift in production of both goods in both countries.

Each country will produce more of its export good and less of its import goods.

Unlike the Ricardian model, however, neither country will necessarily specialize in production of its export good.

As a result of the production shifts though, productive efficiency in each country will improve. Also, due to the changes in prices, consumers, in the aggregate will experience an improvement in consumption efficiency.

In other words,**national welfare will rise for both countries when they move to free trade.**

However, this does not imply that everyone benefits. Later we will show some factor owners will experience an increase in their real incomes while others will experience a decrease in their factor incomes.

Trade will generate winners and losers. The increase in national welfare essentially means that the sum of the gains to the winners will exceed the sum of the losses to the losers. For this reason, economists often apply the compensation principle.

The compensation principle states that as long as the total benefits exceed the total losses in the movement to free trade, then it must be possible to redistribute income from the winners to the losers such that everyone has at least as much as they had before trade liberalization occurred.

Questions to self-checking:

1. Describe the main stages of trade theory evolution;
2. Explain the principle of absolute advantage. Give an example.
3. Explain the principle of comparative advantage. Give an example.
4. What are opportunity costs? Link it with comparative advantage.
5. Distinguish the main differences between general and partial equilibrium.
6. What are the main assumptions of Heckscher-Ohlin model?
7. What is the essence of Heckscher-Ohlin theorem?
8. What is the essence of Leontief's paradox?
9. What is marginal rate of substitution? Give an example.
10. What is marginal product. Give an example of MP.

Practice Task 1

Suppose that countries A and B produce two goods – milk and oil, the level of costs for their production is characterized by the data given in the table, and marginal costs of substitution remain unchanged for any production volumes.

Country	Productive costs per 1 ton of oil	Productive costs per 1 ton of milk
A	150	100
B	120	120

1. Does the country A have an absolute advantage in the production of oil?
2. Does country B have a comparative advantage in the production of milk?
3. What goods will the countries A and B export and import under free trade conditions?
4. To what extent should the ratio of world prices for oil and milk in the conditions of free trade between countries A and B be established?

Practice Task 2

Labour costs (in hours) for the production of linen and cloth in England and Germany are as follows:

	Linen	Cloth
England	10	2

Germany	12	3

1. In the production of what product England has a relative advantage and why?
2. In what interval will the equilibrium price for linen be located in case of development of trade between the two countries?
3. Calculate Germany's gain from trade if it specializes in the production of linen.

Practice Task 3

Suppose that the production of a single microscope requires 24 hours of labour and 3 hectares of land. The production of 1 ton of milk requires 4 hours of labour and 8 hectares of land.

1. If USA has 150 million workers and 200 million hectares of land, and in Latvia - 50 million workers and 40 million hectares of land, then in what proportion will trade two goods between USA and Latvia take place?
2. Why specialization in real trade can be completely different than follows from the theory of the ratio of factors of production?

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Chapter 2: THE EUROPEAN TRADE POLICY SYSTEM

Despite all the evident benefits of international trade, governments have a tendency to put up trade barriers to protect the domestic industry. There are two kinds of barriers: tariff and non-tariff.

Tariff Barriers

Tariff is a tax levied on goods traded internationally, that is on imports. As a result, the price level of imported products rises and the demand for them decrease, thus imports are less.

Non-tariff Barriers

Non-Tariff Barriers (NTBs) include all the rules, regulations and bureaucratic delays that help in keeping foreign goods out of the domestic markets. Baldwin defined a "non-tariff distortion" as "any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real-world income.

After the World War II, many countries focused on protecting home industries. So, international trade was hampered by severe trade restrictions. To remedy this situation, twenty-three nations joined together in 1947 and signed the General Agreement on Tariffs and Trade (GATT), which stimulated free trade by regulating and lowering tariffs. The work of GATT is sustained by the World Trade Organization (WTO) which encourages global commerce and reduces trade barriers. Tariffs on goods and services have been reduced to low levels through eight successive rounds of the WTO; still there has been a significant increase of Non-Tariff Measurements which are seriously hindering trade. Countries use many mechanisms to restrict imports.

NTBs have gained importance as tariff levels have been reduced worldwide. They are the greatest single threat to a liberal world trading system and they are becoming more widespread: the percentage of industrial countries' total imports subject to NTBs rose from 25% in 1981 to 27% in 1983 and they are even higher today. NTBs are therefore one of the most important issues in the round of international trade negotiations.

Table 1 Types of non-tariff barriers

Policy	Purpose	Examples	Potential Consequences

Protectionist policies	To help domestic firms and enterprises at the expense of other countries.	Import quotas; local content requirements; public procurement practices	Challenges levied at WTO and other trade forums
Assistance policies	To help domestic firms and enterprises, but not at the expense of other countries.	Domestic subsidies; antidumping laws; industry bailouts.	Adversely affected countries may respond to protect themselves (i.e., imposing countervailing duties and subsidies).
Nonprotectionist policies	To protect the health and safety of people, animals, and plants; to protect or improve the environment.	Licensing, packaging, and labelling requirements; sanitary and phytosanitary (SPS) rules; food, plant and animal inspections; import bans based on objectionable fishing or harvesting methods.	Limited formal consequences lead to efforts to establish common standards or mutual recognition of different standards.

Sources: Wikipedia, 2018

Non-Tariff Barriers to trade can be categorized in six types:

Specific Limitations on Trade:

Quota shares

A quota is a restriction in value or in physical terms, imposed on import and export of certain goods for a certain period of time. For example, the US has imposed a quota on textiles imported from India and other countries.

Import licenses/ Restrictive licenses

Import licensing can be defined as administrative procedures requiring the submission of an application or other documentation, other than those required for customs purposes, to the relevant administrative body as a prior condition for importation of goods. For example, in Washington, cheese and cheese products are subject to the requirements of the Food and Drug Administration and the Department of Agriculture and most importations of cheese require an import license and are subject to quotas administered by the Department of Agriculture, Foreign Agricultural Service. In Mauritius, pesticides require import licence from the Ministry of Health, arms and ammunitions require import permit from the police and many others.

Exchange controls

This is monitoring the amount of foreign exchange available to residents for purchasing foreign goods domestically or while travelling abroad is another way of restricting imports. Foreign exchange restrictions and foreign exchange controls occupy a special place among the non-tariff regulatory instruments of foreign economic activity. Foreign exchange restrictions constitute the regulation of transactions of residents and non-residents with currency and other currency values.

Import bans/limitations

This is a government order forbidding imports of a specific kind or from a particular country. For example, in order to protect the domestic manufacturers against cheap competition from the neighbouring country, the government of India imposed ban on the import of Chinese toys. Moreover, many countries, like for example India, have impose a ban on food imports from Japan fearing contamination. Furthermore, following a milk scandal that led to the widespread poisoning of babies in China, India banned the import of milk and milk products from China.

Embargoes

Embargo is a particular type of quotas prohibiting the trade, in other words, when imports from a specific country are totally banned. It is mostly put in place due to political reasons. For example, the United Nations imposed an embargo on trade with Iraq as a part of economic sanctions in 1990.

Customs and Administrative Entry Procedures

Customs Valuation

There is a commonly held view that the invoice values of goods traded internationally do not reflect their real cost. This gave rise to a very subjective system of valuation of imports and exports for levy of duty. If the value ascribed to a particular product would turn out to be considerably higher than its real cost, it could end in affecting its competitiveness by increasing the total cost to the importer due to the excess duty. This would hence act as a barrier to international trade.

Antidumping practice

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. Antidumping is prohibiting a country to dump, that is, to export goods at usual lower prices.

Documentation requirements

This is when complicated and unnecessary documentation requirements are asked by the importing countries. In Mauritius, according to the Mauritius chamber of commerce and Industry of Mauritius, these imports documents are required; invoice, showing the FOB and CIF value of goods; packaging lists; bill of lading; bill of entry; and where applicable; insurance certificate, certificate of inspection, certificate of origin and imports permits.

Rules of origin

Determining where a product comes from is no longer easy when raw materials and parts across the globe are used as inputs in the manufacturing plants. Rules of origin are important in implementing such trade policy instruments as anti-dumping and countervailing duties, origin marking, and safeguard measures.

Technical barriers to trade

Technical Barriers

Countries generally specify some quality standards to be met by imported goods for various health, welfare and safety reasons. In Mauritius, rice (imported by traders other than the State Trading Corporation) should not exceed 10% broken rice, bakery additives shall not contain potassium bromate as an ingredient, etc. This facility can be misused for blocking the import of certain goods from specific countries by setting up of such standards, which deliberately exclude these products. The process is further complicated by the requirement that testing and certification of the products regarding their meeting the set standards be done only in the importing country.

The Precautionary Principle

The precautionary principle is a government restriction on trade in the context of environmental and health concerns, often regardless of cost or scientific evidence. The precautionary principle has been interpreted by some to mean that new chemicals and technologies should be considered dangerous until proven otherwise. It therefore requires those responsible for an activity or process to establish its harmlessness and to be liable if damage occurs.

Sanitary and Phyto-sanitary conditions

This is a restriction on imports from certain places in order to protect consumers, the environment, or agriculture from harmful diseases or pests that may accompany the imported product. For instance, in Mauritius, agricultural goods require a phytosanitary certificate from the ministry of Agriculture, prepared foods, drugs, and chemicals with potential adverse effects on health require phytosanitary certificate from the Ministry of Health.

Packaging conditions, labelling conditions and product standards.

Countries usually impose standards on classification, labelling and testing of products in order to be able to sell domestic products, but also to block sales of products of foreign manufacture. These standards are occasionally entered under the excuse of protecting the safety and health of local populations. In Mauritius, the establishment in charge for the control of standards mainly for food and other items is the Mauritius Standards Bureau.

In addition, European exporters and investors are facing an increasing number of unjustifiable non-

tariff barriers in the form of product certification, labelling standards, import approval requirements and customs clearance delays.

Also, many of the Chinese standards such as the CCC standard require certification by the Chinese authorities before a product can be put on the Chinese market. Important information has to be submitted and the factory has often to be inspected at the expense of the exporter.

Government Participation in Trade

Complex regulatory environment

Some countries have complex regulatory framework, for e.g. complex business registration and license, and thus this hamper free trade. For instance, rules recently enacted in China, prohibit European financial information agencies and operators to sell directly their services customers in China.

Government procurement policies

This is another type of NTB where governments pretty frequently follow the policy of procuring their requirements (including that of government-owned companies) only from local producers, or at least extend some price advantage to them. This closes a big potential market to the foreign producers.

Subsidies to Local Goods

This occurs when governments directly or indirectly subsidize local production in an effort to make it more competitive in the domestic and foreign markets. For example, tax benefits may be extended to a firm producing in a certain part of the country to reduce regional imbalances, or duty drawbacks may be allowed for exported goods, or, as an extreme case, local firms may be given direct subsidies to enable them to sell their goods at a lower price than foreign firms.

Countervailing duties

This is a duty placed on imported goods that are being subsidized by the importing government. This helps to even the playing field between the domestic producers and the foreign producers receiving subsidies.

"Buy national" policy

This is a policy hosted by the government to help the national economy. For instance, in 2009, the Paraguayan Finance Ministry specified changes to public procurement policy in relation to the national stimulus plan. That is, public bodies that seek to spend money from the stimulus money are to give preference to national goods and services. More specifically, domestic goods shall receive a preferential margin of 70 percent over imported products. In terms of labour, the announcement declares that at least 70 percent of the labour involved in stimulus projects shall come from local employees living in the territory of the contracting public authority.

Table 2 Charges on imports

Changes	Explanations
Variable import levy	A variable import levy is a levy on imports that raises their price to a level at least as high as the domestic price. Such levies are adjusted frequently in response to changes in world market prices and are imposed to defend administered prices set above world market prices. Under the Uruguay Round Agreement on Agriculture, the variable levies of the EU have been converted into fixed tariffs or tariff-rate quotas.
Border taxes	It is a tax system for imports and exports, especially one that compensates for internal taxes in Common Market countries by levying fees or paying rebates.
Others	
Voluntary Export Restraints	This is an act of limiting exports. It happens when a country facing a persistent huge trade deficit against another country pressurized the latter to adhere to a self-imposed limit on the exports. For instance, after facing consistent trade deficits over a number of years with Japan, the US persuaded it to impose such limits on itself.
Direct and Indirect Restrictions on Foreign Investments	A country may directly restrict foreign investment to some specific sectors or up to a certain percentage of equity. Indirect restrictions may come in the form of limits on profits that can be repatriated or prohibition of payment of royalty to a foreign parent company. These restrictions discourage foreign producers from setting up domestic operations. Foreign companies are generally interested in setting up local operations when they foresee increased sales or reduced costs as a consequence. Thus, restrictions against foreign investments add impediments to international trade by giving rise to inefficiencies.

Sources: Wikipedia, 2018

The EU's trade policy for developing countries focuses on those most in need. The Generalized Scheme of Preferences has been reformed and preferential treatment has been phased out for non-LDCs. Free trade agreements with development components are being negotiated with ACP countries, while the Everything But Arms regime remains for LDCs and Aid for Trade helps build trade capacities. The EU supports the WTO Development Round and ratified the trade facilitation agreement in October 2015.

Legal basis

Following the 2002 Communication on 'Trade and Development: Assisting Developing Countries to Benefit from Trade' and the 2010 Communication on 'Trade, Growth and World Affairs: Trade Policy as a core component of the EU's 2020 Strategy', the 2012 Communication on 'Trade, growth and development: Tailoring trade and investment policy for those countries most in need' clearly reflects a change in the 'trade and development' paradigm.

While it confirmed the main principles stated in 2002 of placing trade at the centre of development strategies, the 2012 Communication stressed the need to increasingly differentiate between developing countries in order to focus on those most in need. It also aimed at enhancing synergies between trade and development policies, such as the EU principle of Policy Coherence for Development and the 2011 Agenda for Change Communication, as well as restating the importance of respecting EU core values such as human rights.

The legal basis for trade policy in general is Article 207 of the Treaty on the Functioning of the European Union (TFEU), which defines the EU institutions' competences in the field of the Common Commercial Policy (CCP). Article 188(2) TFEU stipulates that the ordinary legislative procedure, requiring Parliament's approval, applies to the implementation of the CCP. Under Article 218 TFEU, Parliament's consent is required for the conclusion of international trade agreements such as EPAs. Parliament's power has increased not only under the Lisbon Treaty, which extends the scope of the ordinary legislative procedure, but also through practice during the current parliamentary term. Its ongoing commitment to greater transparency in trade negotiations has led to the declassification of free trade agreement mandates as, for example, in the case of the Transatlantic Trade and Investment Partnership (TTIP) negotiations with the US or the plurilateral negotiations on services, such as the Trade in Services Agreement (TiSA).

Objectives of EU preferential market access schemes

The GSP scheme, which was introduced in 1971, has three principal elements. One is the standard Generalized System of Preferences (GSP), an autonomous trade arrangement through which the EU offers certain foreign goods non-reciprocal preferential access to the EU market in the form of reduced or zero tariffs. The second element (GSP+) is a specific incentive arrangement offering tariff reductions to vulnerable countries that have ratified and implemented international conventions relating to human and labour rights, the environment and good governance. The third component is the Everything But Arms (EBA) initiative which guarantees duty-free and quota-free access to the EU for all products except arms and ammunition for 49 least-developed countries (LDCs).

The objective of the GSP scheme is to facilitate access for developing countries and territories to the EU market by reducing tariffs on their goods. Originally, unilateral tariff preferences granted by the EU market were intended to generate additional export revenue for developing countries which they could use to implement their own sustainable development and poverty reduction policies, and to diversify their economies. The GSP scheme was reformed by Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012. Although the three components remained, the scheme became more focused on countries that are most in need.

A narrowed income conditionality has been added to the 'standard' GSP, reducing duties on

approximately 66% of all tariff lines, to ensure that vulnerable developing countries with low and lower-middle incomes become the main target group. This means that countries classified by the World Bank as high-income or upper-middle-income countries for the past three years will lose the GSP. As a result, the group of beneficiaries has been substantially reduced from 176 to 27. The newly introduced 'graduation' mechanism has also modified the point at which tariff preferences no longer apply to a specific country.

GSP+, the special arrangement for sustainable development and good governance, still provides for zero duties on approximately 66% of all tariff lines designated under the standard GSP for developing countries considered to be vulnerable, but it has been made conditional on their ratification and implementation of 27 international conventions relevant to sustainable development, including basic human rights conventions, labour rights conventions, certain conventions relating to environmental protection and conventions relating to the fight against illegal drug production and trafficking. Failure to comply with these requirements results in suspension of the tariff concession. The list of beneficiaries has been extended to more countries.

These two GSP schemes will be valid for ten years.

The EBA initiative grants duty-free and quota-free access for all products, except arms and ammunition, from LDCs. With the reform, it became more focused on 49 LDCs that will benefit from the EBA scheme for an unlimited period. Of these, 33 are African countries, 10 are Asian countries, five are Pacific countries and the last is in the Caribbean (Haiti).

All the countries that have signed and ratified an FTA with the EU will automatically cease to enjoy preferential treatment, no matter what their level of development is.

The Aid for Trade programme, which is part of Official Development Aid (ODA), provides assistance to build trade capacities in order to create growth and fight poverty.

At multilateral level, the EU supports the WTO Development Agenda launched in Doha in 2001. In October 2015 it ratified the Trade Facilitation Agreement concluded at the WTO Ministerial meeting in Bali (2014), which is particularly important for developing and landlocked countries.

At the last WTO Ministerial Conference, which was held for the first time in an African country (Kenya), the EU – together with a few other WTO members – was very active in promoting other issues of interest for developing countries.

Economic Partnership Agreements

The trade agreements called Economic Partnership Agreements (EPAs) became the principal instruments for promoting trade between the EU and the African, Caribbean and Pacific regions under the Cottoned Agreement of 2000.

EPAs are the building blocks of EU-ACP trade relations and are one of the three pillars of the agreement. They are designed to be World Trade Organisation-compatible and will progressively replace the EU's preferential trade regime.

Starting in 2002, negotiations on EPAs were expected to be concluded by 2008. As the negotiation process took much longer than anticipated, the EU adopted a market access regulation to ensure temporary market access arrangements until 2014, subsequently extended until 2016, until EPAs are concluded, signed and ratified. The process has not delivered the intended regional dimension as, on the eve of the expiry date of the Market Access Regulation (1 October 2016), only two full regions had signed an EPA — which is not yet ratified — and only one regional EPA was in force.

The future of EPAs is in question as their legal basis, the Cottoned Agreement, expires in February 2020. The Commission has, however, given assurance that these agreements will be maintained and will continue to play a central role in the trade pillar of the post-Cottoned partnership.

State of play

The current situation is as follows:

The Caribbean Forum (Car forum) EPA was the first regional agreement to be signed, in October 2008, and was approved by Parliament on 25 March 2009. It is currently in force.

West Africa: the negotiations between the EU and 16 West African countries were closed in February 2014. The text was initialled on 30 June 2014 and on 10 July 2014 the heads of state of the Economic Community of West African States (ECOWAS) endorsed the EPA for signing. The signing process is currently in progress.

Côte d'Ivoire and Ghana initialled bilateral 'interim' EPAs with the EU at the end of 2007. The EPA with Côte d'Ivoire was signed on 26 November 2008, ratified by the National Assembly on 12 August 2016 and entered into provisional application on 3 September 2016. As regards Ghana, the agreement was signed on 28 July 2016 and ratified on 3 August 2016 by the Ghanaian Parliament. It will enter into provisional application after the European Parliament has given its consent. The regional EPA is still in the process of being signed and ratified.

Central Africa: Cameroon signed the EPA between the EU and Central Africa on 15 January 2009, the only country in the region to do so. The European Parliament gave its consent in June 2013. In July 2014 the Parliament of Cameroon approved the ratification of the agreement and the agreement entered into provisional application on 4 August 2014. No regional EPA has yet been signed.

Eastern and Southern Africa (ESA): in 2009, four countries in the region – Mauritius, Seychelles, Zimbabwe and Madagascar – signed an EPA which has been provisionally applied since 14 May 2012. The European Parliament gave its consent on 17 January 2013.

Eastern African Community (EAC): the negotiations for the regional EPA were successfully concluded on 16 October 2014. On 1 September 2016, Kenya and Rwanda signed the EPA, as did the EU Member States and the EU. The ratification process is under way with Kenya and Rwanda. Uganda and Burundi are actively considering signing in the coming months. On 11 November 2016, Tanzanian members of parliament unfortunately voted against ratification of the EPA. While the position of Uganda and Burundi is still to be clarified, it is expected that East African leaders will hold new discussions on this issue during an EAC summit scheduled in January 2017.

Southern Africa Development Community (SADC): on 15 July 2014 the EPA negotiations were successfully concluded in South Africa. This ended 10 years of negotiations and produced a comprehensive agreement with the whole of the SADC EPA group, including South Africa. The agreement was signed on 1 June 2016 by the EU and the SADC EPA group, which consists of six out of 15 members of the Southern African Development Community (Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa), and entered into force on 10 October 2016. Angola has observer status and may join the agreement in the future.

Pacific: the EPA was signed by the EU and Papua New Guinea (PNG) on 30 July 2009 and by Fiji on 11 December 2009. Parliament gave its consent on 19 January 2011. The Parliament of Papua New Guinea ratified the EPA on 25 May 2011. Fiji decided on 17 July 2014 to start provisionally applying the EPA (European, 2018).

The European Commission aims to support industrial modernization and ensure European leadership in global markets in the context of industrial revolution and digital transformation.

EU industrial policy

The 2014 Communication, For a European Industrial Renaissance sets out the Commission's priorities for industrial policy and calls on EU countries to recognize the central importance of industry for creating growth and jobs. It provides an overview of actions undertaken and puts forward new ones to:

- mainstream industrial competitiveness in other policy areas;
- maximize the potential of the Single Market, notably through standards and market surveillance;
- use the instruments for regional development to support innovation, skills and entrepreneurship;
- develop the skills that industries need and facilitate labour mobility;
- promote access to critical inputs (energy and raw materials) to encourage industrial investment;
- facilitate the integration of EU firms in global value chains;

This policy was complemented in 2016 by the Communication, Digitising European Industry – Reaping the full benefits of a Digital Single Market which focuses on digital transformation and addresses related challenges such as funding, ICT standardisation, big data or skills. Moreover, the Start-up and Scale-up Initiative adopted in 2016 aims to give Europe's many innovative entrepreneurs every opportunity to

become world leading companies.

What the Commission does

We are committed to helping European industries be competitive and generate growth and jobs. We develop policies and actions for the modernizations of the industrial base and for the transition towards an ever more innovative, modern and sustainable economy.

Sectorial action

Industrial policy contributes to Europe's competitiveness by establishing appropriate framework conditions (such as smart legislation). In this regard, the Commission has developed sector-specific action plans and smart legislation that supports key industrial sectors including: chemicals; automotive; tourism; textiles, fashion and creative industries; raw materials, metals, minerals and forest-based industries; mechanical engineering; electrical and electronic engineering; the food and drink industry; healthcare; biotechnology; aeronautics and maritime industries (Sectors, 2018).

Specific actions are directed at sectors with geostrategic implications and a high degree of public intervention, such as defence industries, spaceor key enabling technologies (KETs) (Defence, 2018).

Industrial policy is implemented in conjunction with competition policy to prevent distortions in the Single Market through control of state aid and mergers, as well as antitrust enforcement.

- To help to achieve our policy goals, and to promote innovation and entrepreneurship, we develop and manage targeted support actions under the following EU programmes:
- COSME – the programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) (COSME, 2018).
- Horizon 2020 for research and innovation (for space, innovation in SMEs and raw materials) (Horizon, 2018).
- Galileo for satellite navigation and Copernicus for earth observation (Horizon, 2018).

Regional action

In addition, in the context of the European Structural and Investment Funds (European Structural, 2018), the Commission helps EU countries and regions to work together on industrial platforms. These partnerships, notably between regions, are facilitated through a Smart Specialisation Platform for industrial modernisation (EU, 2018).

Economic Partnership Agreements (EPAs) are trade and development agreements negotiated between the EU and African, Caribbean and Pacific (ACP) partners engaged in regional economic integration processes (Economic, 2018).

EU trade policy and ACP countries

The EU has in place, or is negotiating, Economic Partnership Agreements (EPAs) with countries in Africa, the Caribbean and the Pacific.

Find out more about the top 10 benefits of these partnerships for development.

1. The Economic Partnership Agreements between the EU and African, Caribbean and Pacific countries and regions aim at promoting ACP-EU trade – and ultimately contribute, through trade and investment, to sustainable development and poverty reduction.
2. Trade with ACP countries represent more than 5% of EU imports and exports. The EU is a major trading partner for ACP countries.
3. The EU is the main destination for agricultural and transformed goods from ACP partners – but commodities (e.g. oil) still form a large part of ACP-EU trade. The EPAs intend to support trade diversification by shifting ACP countries' reliance on commodities to higher-value products and services.
4. The majority of ACP countries are either implementing an EPA or have concluded EPA negotiations with the EU

Economic Partnership Agreements in a nutshell

Economic Partnership Agreements:

- are a process dating back to the signing of the Cotonou Agreement.
- are "tailor-made" to suit specific regional circumstances.
- are WTO-compatible agreements, but go beyond conventional free-trade agreements, focusing on ACP development, taking account of their socio-economic circumstances and including co-operation and assistance to help ACP countries benefit from the agreements.
- open up EU markets fully and immediately but allow ACP countries long transition periods to open up partially to EU imports while providing protection for sensitive sectors.
- provide scope for wide-ranging trade co-operation on areas such as sanitary norms and other standards.
- create joint institutions that monitor the implementation of the agreements and address trade issues in a cooperative way.
- last but certainly not least, are also designed to be drivers of change that will help kick-start reform and contribute to good economic governance. This will help ACP partners attract investment and boost their economic growth.

Read the EPA factsheet and the EPA brochure, and see what the benefits of EPAs are.

Where are we in negotiations?

Overview of EPAs – state of play

1. Regional EPA pages:
2. Central Africa
3. Eastern and Southern Africa
4. East African Community
5. Southern African Development Community
6. West Africa
7. Caribbean
8. Pacific (Economic Partnership, 2018).

EU trade policy sets the direction for trade and investment in and out of the EU.

The Directorate-General for Trade in the European Commission helps to develop and implement EU trade and investment policy. Along with the EU's Trade Commissioner, Cecilia Malmström, we aim to shape a trade and investment environment that is good for people and for business.

The overall direction for an EU trade policy that helps revitalise Europe's economy is set out in the Communication “Trade for all – towards a more responsible trade and investment policy”. The EU aims to play a key role in keeping markets open worldwide and helping Europe to exit from the economic crisis.

EU trade policy is working to:

1. Create a global system for fair and open trade

The World Trade Organization has helped shape a system of global trade rules that keeps the global economy open for trade as well as reflects and respect the needs and concerns of developing countries.

The network of agreements and obligations overseen by the World Trade Organization, helps ensure that trade is open, predictable and fair.

EU trade policy works to maintain the global trading system and to ensure it adapts to a fast-changing world (EU and WTO, 2018).

2. Open up markets with key partner countries

We seek to create growth and jobs for Europeans by increasing their opportunities to trade with the world. This is particularly important in the context of current economic conditions.

One way of opening markets is to negotiate better access and conditions for trade and investment through free trade agreements.

The EU has concluded a number of Free Trade Agreements and is continuing negotiations with others.

3. Make sure everyone plays by the rules

EU trade policy aims to open new markets for European exporters, workers and investors through lifting barriers to the markets of our trading partners. We work closely with countries outside Europe to:

- remove persistent problems for exporters;
- increase the opportunities for EU businesses to get equal access to procurement markets outside the EU;
- reduce counterfeiting and piracy of European goods;
- open up new opportunities for European investment.

Because international trade rules are designed to ensure that trade is fair, it is vital that they are respected. We represent and defend European interests in the court system of the World Trade Organization, helping ensure that WTO obligations are met.

We are also responsible for making sure that the imports that enter the EU are traded at fair prices and that they do not cause unfair damage to European companies and their workers (EU and WTO, 2018).

We are committed to actively helping people around the world trade their way out of poverty. Europe has opened its markets to all imports from the world's poorest countries, and works actively to help developing countries build the capacity to take advantage of trade.

We also use our trade policy to reinforce other important international goals:

- supporting the fight to protect our environment and reverse global warming;
- striving to improve working conditions for workers in developing countries; and
- ensuring the highest standards of health and safety for the products we buy and sell.

According to the EU treaties, membership of the European Union is open to "any European State which respects the values referred to in Article 2 and is committed to promoting them" (TEU Article 49). Those Article 2 values are "respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities." This is based on the 1993 "Copenhagen criteria" agreed as it became clear many former Eastern Bloc countries would apply to join.

"Membership requires that candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union. "

In December 1995, the Madrid European Council revised the membership criteria to include conditions for member country integration through the appropriate adjustment of its administrative structures: since it is important that European Community legislation be reflected in national legislation, it is critical that the revised national legislation be implemented effectively through appropriate administrative and judicial structures.

Finally, and technically outside the Copenhagen criteria, comes the further requirement that all prospective members must enact legislation to bring their laws into line with the body of European law built up over the history of the Union, known as the acquis communautaire (Sustainable, 2018).

Process

Today the accession process follows a series of formal steps, from a pre-accession agreement to the ratification of the final accession treaty. These steps are primarily presided over by the European Commission (Enlargement Commissioner and DG Enlargement), but the actual negotiations are technically conducted between the Union's Member States and the candidate country.

Before a country applies for membership it typically signs an association agreement to help prepare the country for candidacy and eventual membership. Most countries do not meet the criteria to even begin negotiations before they apply, so they need many years to prepare for the process. An association agreement helps prepare for this first step.

In the case of the Western Balkans, a special process, the Stabilisation and Association Process exists to deal with the special circumstances there.

When a country formally applies for membership, the Council asks the Commission to prepare an opinion on the country's readiness to begin negotiations. The Council can then either accept or reject the Commission's opinion (The Council has only once rejected the Commission's opinion when the latter advised against opening negotiations with Greece).

If the Council agrees to open negotiations the screening process, then begins. The Commission and candidate country examine its laws and those of the EU and determine what differences exist. The Council then recommends opening negotiations on "chapters" of law that it feels there is sufficient common ground to have constructive negotiations. Negotiations are typically a matter of the candidate country convincing the EU that its laws and administrative capacity are sufficient to execute European law, which can be implemented as seen fit by the member states. Often this will involve time-lines before the Acquis Communautaire (European regulations, directives & standards) has to be fully implemented.

Population and GDP per capita of individual EU member states compared with those of non-member states in Europe.

A chapter is said to be closed when both sides have agreed it has been implemented sufficiently, however it can still be re-opened if the Commission feels that the candidate has fallen out of compliance.

To assess progress achieved by countries in preparing for accession to the European Union, the European Commission submits regular reports (yearly) to the European Council. These serve as a basis for the Council to make decisions on negotiations or their extension to other candidates.

Once the negotiations are complete a treaty of accession will be signed, which must then be ratified by all of the member states of the Union, as well as the institutions of the Union, and the candidate country. Once this has been completed it will join the Union on the date specified in the treaty.

The entire process, from application for membership to membership has typically taken about a decade, although some countries, notably Sweden, Finland, and Austria have been faster, taking only a few years. The process from application for association agreement through accession has taken far longer, as much as several decades (Turkey for example first applied for association in the 1950s and has yet to conclude accession negotiations).

The **Common Foreign and Security Policy** (**CFSP**) is the organised, agreedforeign policyof the European Union(EU) for mainly security and defence diplomacy and actions. CFSP deals only with a specific part of theEU's external relations, which domains include mainlyTrade and Commercial Policyand other areas such asfundingto third countries, etc. Decisions require unanimity amongmember statesin theCouncil of the European Union, rtain aspects can be further decided by qualified majority voting. Foreign policy is chaired and represented by the EU'sHigh Representative, currentlyFederica Mogherini (Wikipedia, 2018).

The CFSP sees theNorth Atlantic Treaty Organisation(NATO) as responsible for the territorial defence of Europe and reconciliation. However, since 1999, the European Union is responsible for implementing missions such as peacekeeping and policing of treaties. A phrase often used to describe the relationship between the EU forces and NATO is "separable, but not separate".The same forces and capabilities form the basis of both EU and NATO efforts, but portions can be allocated to the European Union if necessary.

Objectives

According to Article J.1 of title V of the Maastricht Treaty, the European Union defines and implements a common foreign and security policy that covers all areas of foreign and security policy, the objectives of which are to:

- Safeguard the common values, fundamental interests, independence and integrity of the Union in conformity with the principles of the United Nations Charter;
- Strengthen the security of the Union in all ways;
- Preserve peace and strengthen international security, in accordance with the principles of the United Nations Charter, as well as the principles of the Helsinki Final Act and the objectives of the Paris Charter, including those on external borders;

- Promote international co-operation;
- Develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms (Wikipedia, 2018).

Elements:

Types of policy. The European Council defines the principles and general guidelines for the CFSP as well as common strategies to be implemented by the EU. On the basis of those guidelines the Council of Ministers adopts joint actionsorcommon positions. Joint actionsaddress specific situations where operation action by the EU is considered necessary and lay down the objectives, scope and means to be made available to the EU. They commit the member states. Common positionson the other hand, define the approach that the EU takes on a certain matter of geographical or thematic nature, and define in the abstract the general guidelines to which the national policies of Member states must conform.

High Representative. The High Representative, in conjunction with the President of the European Council, speaks on behalf of the EU in agreed foreign policy matters and can have the task of articulating ambiguous policy positions created by disagreements among member states. The Common Foreign and Security Policy requires unanimity among the now 28-member states on the appropriate policy to follow on any particular policy. Disagreements in CFSP, such as those that occurred over the war in Iraq, are not uncommon (Wikipedia, 2018).

Bodies. There are a number of bodies set up within the context of the CFSP. Within the Council, there is the Foreign Affairs Council (FAC) configuration, essentially a meeting of foreign ministers and the Political and Security Committeeor PSC, which monitors the international situation in the areas covered by the CFSP and contributes by delivering opinions to the Council of Ministers, either at its request or its own initiative, and also monitors the implementation of agreed policies.

The European Defence Agency (EDA) encourages increase in defence capabilities, military research and the establishment of a European internal market for military technology. Two bodies carried over from the Western European Union(see defence, below) are the European Union Institute for Security Studies (EUISS) and the European Union Satellite Centre (EUSC). The EUISS is the European Union's in-house think tank. Its mission is to find a common security culture for the EU, to help develop and project the CFSP, and to enrich Europe's strategic debate. The EUSC is providing analysis of satellite imagery and collateral data.

World Bank Group Experts Help Countries Compete in Global Markets

1. An environment that fosters private-sector growth is vital to firms' ability to compete on international markets.
2. Competitiveness is central to job-creation and, ultimately, to the World Bank's goals of eliminating poverty and increasing shared prosperity.
3. The World Bank Group has developed a range of tools for policy-makers to better understand and exploit a wide range of factors that impact competitiveness, including countries' export composition, export sophistication level, and export diversification.

In recent years, support of trade growth has moved beyond trade policy to embrace a wider set of 'behind the border' issues, focused on establishing an environment conducive to the emergence of firms that are competitive in both export and domestic markets. Competitiveness is central to stimulating private sector growth and job-creation. This, in turn, is vital to the World Bank Group's twin goals of eliminating poverty and increasing the incomes of the poorest 40 percent in countries around the world. Better integration in global flows of trade and investment helps firms to be competitive and, in turn, generate higher incomes through better-paid jobs.

Trade competitiveness is no longer about viewing exports and export performance in isolation. Increasingly, it is the result of strong interdependencies between imports and exports, as well as international flows of capital, investment, and know-how. In addition, modern, competitive services are vital as intermediate inputs to a high-performing private sector. Indeed, the interactions between all of these factors determine firm productivity. Through trade and foreign investment, developing countries can benefit from a range of ideas that come from abroad: intellectual property, trademarks, managerial and business practices, marketing expertise, and organizational models. The flows of goods, services, people, ideas, and capital are now interdependent and should be assessed jointly.

Finally, a phenomenon important to developing countries is the emergence and endurance of global value chain (GVC) production. The flow of know-how from developed to developing countries often takes place in the context of vertical trade and production chains that cross many borders from raw material to finished product. Taking advantage of that structure is a key determinant of industrial development in the 21st century. Developing countries can now industrialize by joining GVCs instead of building their own value chain from scratch, as Japan and the Republic of Korea had to do in the 20th century.

In this context, World Bank Group experts provide research, analytical work and other country-specific assistance to country officials trying to address barriers to firm productivity and to private industry's competitiveness in the international marketplace. Understanding how trade flows work and how they contribute to countries' industrialization through GVCs is a fundamental precondition to ensure that the countries deliver pro-development outcomes. World Bank Group experts help developing countries' policymakers and private sector leaders better understand and take advantage of this dynamic.

For example, the World Bank Group can help countries perform analysis of the determinants of their competitiveness in the international markets (i.e. trade competitiveness). Professional technical assistance can identify drivers of growth and the relative importance of different factors of production, including technology, access to foreign vs domestic assets, etc. The World Bank's trade experts can perform firm-level analyses of trade and trade determinants, which look at trade and productivity jointly. These techniques have proven important to better understanding productivity and export performance.

The World Bank's technical assistance also can include concrete proposals for embedding national GVC policies into broader portfolios of policies aimed at upgrading skills, physical and regulatory infrastructure, and enhancing social cohesion. It also helps countries better understand whether entry into GVCs furthers development goals, such as enhancing job prospects for workers at home.

Questions to self-checking:

1. Explain not more than 10 words using your own expression about free trade regime?
2. What is it the commission and main duties?
3. Tariffs in trade policy: definitions, types.
4. Explain the legal basis of trade policy.
5. What EU trade policy sets for?
6. Principles of EU foreign policy?
7. What type of restriction on foreign investments for trade policy?
8. EU trade type of policy: features, main principles and definitions?
9. HowWord Bank group experts help countries compete in global market?
10. GVC leads to?
11. CFSP leads to?

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Chapter 3: EU-UKRAINE TRADE COOPERATION

Through its European Neighbourhood Policy (ENP), the EU works with its southern and eastern neighbours to achieve the closest possible political association and the greatest possible degree of economic integration. This goal builds on common interests and on values – democracy, the rule of law, respect for human rights, and social cohesion. The ENP is a key part of the European Union's foreign policy.

Partner countries agree with the EU anENP action planor an Association Agenda demonstrating their commitment to democracy, human rights, rule of law, good governance, market economy principles and sustainable development. The EU supports the achievement of these objectives:

- **financial support** – grants worth €12 bn were given to ENP-related projects from 2007 to 2013;
- **economic integration** and access to EU markets – in 2011 trade between the EU and its ENP partners totalled €230bn;
- **easier travel to the EU** – 3.2 m Schengen visas were issued to citizens, and in particular to students from ENP countries in 2012;
- **technical and policy support (**European, 2018).

The EU also supports the civil society which plays an important role in bringing about deep and sustainable democracy in partner countries.

Joint initiative.

The ENP is a jointly owned initiative and its implementation requires action on both sides, by the neighbours and by the EU. The ENP benefits from greater coherence thanks to the creation of the European External Action Service which supports the High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission Federica Mogherini and the involvement of the Commissioner specifically dealing with European Neighbourhood Policy and Enlargement Negotiations European Neighbourhood Policy,Johannes Hahn (European, 2018).

Of the 16 ENP countries. 12 are currently are already fully participating as partners in the ENP, having agreed on ENP action plans. In the table 1 the ENP countries are presented.

Table 1 ENP countries

Armenia	Israel	Morocco	Algeria*
Azerbaijan	Jordan	Palestine	Belarus**
Egypt	Lebanon	Tunisia	Libya**
Georgia	Moldova	Ukraine	Syria**

* *is currently negotiating an*ENP action plan

***remain outside most of the structures of ENP.*

Action plans

The ENP action plans (or Association Agendas for Eastern partner countries)

- set out the partner country's agenda for political and economic reforms, with short and medium-term priorities of 3 to 5 years
- reflect the country's needs and capacities, as well as its and the EU’s interests.

The action plans build on existing legal agreements with the EU – partnership & cooperation agreements (PCAs) or association agreements (AAs). Implementation is monitored through committees set up by these agreements. Once a year, the European External Action Service and the European Commission publishENP progress reports assessing the progress made towards the objectives of theAction Plans and the Association Agendas.

The European External Action Service and the European Commission publish yearlyENP progress reports. The next reports are planned to be published on 25 March 2015.

At the last review of its European Neighbourhood Policy in 2010-11, the EU introduced the more-for-more principle: the EU will develop stronger partnerships and offer greater incentives to countries that make more progress towards democratic reform – free and fair elections, freedom of expression, of assembly and of association, judicial independence, fight against corruption and democratic control over the armed forces.

The ENP is chiefly a bilateral policy between the EU and each partner country. But it is complemented by regional and multilateral cooperation initiatives:

- Eastern Partnership;
- the Union for the Mediterranean Partnership;

- Black Sea Synergy.

The ENP review proposes revisedjoint priorities for cooperation, better suited to the challenges of our time and adapted to the regions' evolutions. In addition to good governance, democracy, rule of law and human rights, three other sets of joint priorities have been identified, each of them covering a wide number of cooperation sectors:

- economic development for stabilisation;
- the security dimension;
- migration and mobility.

Competition:

- The existence of effective rules to ensure that companies compete fairly and effectively contributes to economic developmentand encourages innovation. As a result, consumers have more choicein the goods and services available to them and better value-for-money.
- Anti-trust policy improves economic opportunities for all and fosters inclusive development.
- Limiting state aid in a fair manner to areas where it is really necessary provides space for fair competition by better and cheaper producersand allows a more efficient use of scarce public resources.

Taxation:

1. European Neighbourhood Policy promotes good governance and the modernisation of tax systems in order to combatcross-border tax fraudand tax evasionwithout hindering trade, investment and fair competition.
2. For example, tax cooperation aiming to decrease the high excise duty differences on tobacco products (cigarettes etc.) between the EU and its partners, helps to reducecrimes such as smugglingacross common borders, increases budget revenues and contributes to a higher level of health protection.

Conclusion of the Partnership and Cooperation Agreement (PCA) from the 14th of June 1994 (came into force on the 1st of March 1998) initiated the cooperation on broad range of political, economic, trade, and humanitarian issues. The conclusion of the PCA allowed to establish a regular bilateral dialogue between Ukraine and the EU on political and sectoral levels, to introduce trade regulations based on the principles of GATT/WTO, to determine the priorities of Ukrainian legislation adaptation to the European norms and standards (acquis communautaire) in main sectors of the Ukrainian economy. 7 priorities were listed in the PCA, such as: energy, trade and investments, justice and home affairs, adaptation of Ukrainian legislation to that of the EU, environment protection, transport, border cooperation, cooperation in areas of science, technology and space.

Taking into account that the 10-year term of PCA was expiring in March 2008, Ukraine and the EU launched on the 5th of March 2007 the negotiation process on a new agreement between Ukraine and the EU. Before the new agreement is signed, the PCA is automatically prolonged upon the mutual agreement of both sides. Upon the entry of Ukraine to the World Trade Organization, on the 18th of February 2008 Ukraine and the EU launched negotiations on creating a free trade area, opening ways towards the liberalization of movement of goods, services, capital and non-tariff instruments of economic regulatory policy. On the 9th of September 2008, during the Paris Summit, Ukraine and the EU reached a political agreement that the future agreement between the sides would be an agreement of association type, based on the principles of political association and economic integration. During 15th Ukraine – EU Summit on the 19th of December 2011 the negotiations on the Association Agreement were announced completed and on the 30th of March 2012 the chief negotiators initialled the text of the future Agreement.

On the 16th of September 2014 the Verkhovna Rada of Ukraine synchronously with the European Parliament ratified the Association Agreement. Completion of all Ukrainian and the EU necessary internal procedures allowed to start from the 1st of November 2014 the provisional application of a large part of the Association Agreement for the period prior to its full entry into force after ratification of the Agreement by all EU Member States.

Thereby, the Association Agreement forms the legal basis of cooperation between Ukraine and the EU for the medium-term perspective.

In spring 2014 the Government of Ukraine together with the European Commission and the European External Action Service, jointly elaborated a document called the European Reform Agenda for Ukraine. This document includes a comprehensive list of common tasks in the context of Ukraine's development and implementation of fundamental reforms in our state. The European Reform Agenda became, in fact, a roadmap for the Ukrainian Government in implementing of its priorities of and for the EU's respective assistance to Ukraine (European, 2018).

The General Agreement on Tariffs and Trade (GATT) is the most important legal source of world trade law. It was negotiated during the United Nations Conference on Trade and Employment after efforts to create the International Trade Organization remained without success. The original GATT text from 1947, subject to modifications from 1994, is still in effect, even if it has become part of the World Trade Organization which has been in force since its establishment in 1995. Until today, 164 nations have entered the WTO and must therefore also comply with the provisions of the GATT. As for the Netherlands, it signed the GATT on January 1, 1948 and became part of the WTO with its establishment in 1995. Also, the Czech Republic signed the GATT in 1993 and entered the WTO in 1995. Apart from the GATT, crucial legal bases on which the WTO is acting are the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

When negotiated, the GATT was a multilateral agreement regulating international trade. Simultaneously it is to be understood as a discussion forum for international trade problems as well as a body for multilateral trade negotiations.

After the horrors of the Second World War, the international community set itself the objective to reintegrate the global economy fundamentally. The goals pursued by the GATT are explicitly enumerated in the preamble, namely raising the standard of living, ensuring full employment, increasing the real incomes, the effective demand and the production. Globally, this also entails the full use of the world's resources and expanding the production and exchange of goods. Special emphasis is put on the support of developing countries, as they represent three quarters of the 130 signatory countries.

In order to realize these ambitious ideas, the signatory states declared to enter into "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce".

Among the various functions of the WTO, these are regarded by analysts as the most important:

1. It oversees the implementation, administration and operation of the covered agreements.
2. It provides a forum for negotiations and for settling disputes.

Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.

1. The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements and shall also provide the frame work for the implementation, administration and operation of the multilateral Trade Agreements.
2. The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement in the Annexes to this Agreement.

3. The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.
4. The WTO shall administer Trade Policy Review Mechanism.
5. With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

The above five listings are the additional functions of the World Trade Organization. As globalization proceeds in today's society, the necessity of anInternational Organization to manage the trading systems has been of vital importance. As the trade volume increases, issues such as protectionism, trade barriers, subsidies, violation of intellectual property arise due to the differences in the trading rules of every nation. The World Trade Organization serves as the mediator between the nations when such problems arise. WTO could be referred to as the product of globalization and also as one of the most important organizations in today's globalized society.

The WTO is also a centre of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-discrimination**. It has two major components: themost favoured nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas.
2. **Reciprocity**. It reflects both a desire to limit the scope of free-riding thatmay arise because of the MFN rule, and a desire to obtain better access to foreign markets.
3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions.
4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO.
5. **Safety values**. In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health (National, 2018; World, 2018).

The Association Agreement is a pioneering document: it is the first agreement based on political association between the EU and any of the Eastern Partnership countries and is unprecedented in its breadth (number of areas covered) and depth (detail of commitments and timelines).

The key parts focus on support to core reforms, economic recovery and growth, and governance and sector cooperation in areas such as energy, transport and environment protection, industrial cooperation, social development and protection, equal rights, consumer protection, education, youth, and cultural cooperation.

The Agreement also puts a strong emphasis on values and principles: democracy and the rule of law, respect for human rights and fundamental freedoms, good governance, a market economy and sustainable development.

There will be enhanced cooperation in foreign and security policy and energy.

The aims of this association are:

- to promote gradual rapprochement between the Parties based on common values and close and privileged links, and increasing Ukraine's association with EU policies and participation in programmes and agencies;
- to provide an appropriate framework for enhanced political dialogue in all areas of mutual interest;
- to promote, preserve and strengthen peace and stability in the regional and international dimensions in accordance with the principles of the United Nations Charter, and of the Helsinki Final Act of 1975 of the Conference on Security and Cooperation in Europe and the objectives of the Charter of Paris for a New Europe of 1990;
- to establish conditions for enhanced economic and trade relations leading towards Ukraine's gradual integration in the EU Internal Market, including by setting up a Deep and Comprehensive Free Trade Area as stipulated in Title IV (Trade and Trade-related Matters) of this Agreement, and to support Ukrainian efforts to complete the transition into a functioning market economy by means of, inter alia, the progressive approximation of its legislation to that of the Union;
- to enhance cooperation in the field of Justice, Freedom and Security with the aim of reinforcing the rule of law and respect for human rights and fundamental freedoms;
- to establish conditions for increasingly close cooperation in other areas of mutual interest (Association, 2014).

In the table 1 the content of Association Agreement between Ukraine and the European Union is presented.

Table 1 Content of Association Agreement

CHAPTER	**MAIN SECTIONS**
Title I General principles	
Title II Political dialogue and reform, political association, cooperation and convergence in the field of foreign and security policy	Aims of political dialogue Fora for the conduct of political dialogue Dialogue and cooperation on domestic reform Foreign and security policy International Criminal Court Regional stability Conflict prevention, crisis management and military-technological cooperation Non-proliferation of weapons of mass destruction Disarmament, arms controls, arms export control and the fight against illicit trafficking of arms Combating terrorism
Title III Justice, freedom and security	The rule of law and respect for human rights and fundamental freedoms Protection of personal data Protection of personal data Treatment of workers Mobility of workers Movement of persons Money laundering and terrorism financing Cooperation in the fight against illicit drugs, and on precursors and psychotropic substances

	Fight against crime and corruption Cooperation in fighting terrorism Legal cooperation
Title IV Trade and trade-related matters	National treatment and market access for goods: Trade remedies: Technical barriers to trade Sanitary and phytosanitary measures Customs and trade facilitation Establishment, trade in services and electronic commerce Current payments and movement of capital Public procurement Intellectual property Competition Trade-Related energy Transparency Trade and sustainable development Dispute settlement Mediation mechanism
Title VI Economic and sector cooperation	Energy cooperation, including nuclear issues Macro-Economic cooperation Management of public finances: budget policy, internal control and external audit. Taxation Statistics Environment Transport Space Cooperation in science and technology Industrial and enterprise policy Mining and metals Financial services Company law, corporate governance, accounting and auditing Information society Audio-Visual policy Tourism Agriculture and rural development Fisheries and maritime policies Danube river Consumer protection Cooperation on employment, social policy and equal opportunities Public health Education, training, and youth Culture Cooperation in the field of sport and physical activity Civil society cooperation Cross-Border and regional cooperation Participation in European union agencies and programmes
Title VII Financial cooperation, with anti-fraud provisions	
Title VIII Institutional, general and final provisions	Access to courts and administrative organs Measures related to essential security interests Gradual approximation Monitoring and etc.

Compiled by authors on the basis of (Association, 2014)

It includes a Deep and Comprehensive Free Trade Area – this will go further than classic free trade areas, as it will both open up markets but also address competitiveness issues and the steps needed to meet EU standards and trade on EU markets.

The Agreement will also highlight Justice, Freedom & Security issues which also include provisions on mobility.

European integration for Ukraine is a possibility of economy modernization, opportunity to overcome technological backwardness, source of foreign investment and advanced technologies. Also according to Shevchenko (2009) European integration is seen by Ukrainians as source of creating new jobs, increased competitiveness of domestic producers, access to world markets, especially the EU market.

In the political aspects European integration determines modernization of legal system in Ukraine and promotes democratization of political and institutional systems. Cooperation with the EU could contribute to bringing social conditions in Ukraine to the highest European standards through raising living standards and welfare.

In the cultural and civilizational aspect according to Osadcha (2011) European integration is a way to enhance exchanges between Ukrainian and Western European humanistic cultures. Also EU integration could help to the simultaneous formation of Ukraine as an integrated part of global society and the national state. Finally, EU membership guarantees the strengthening of Ukraine's national security; protect it from aggression and territorial claims.

However, EU brings not only pure benefits for the member states; there are also some dangers especially for the economically and socially weak countries. This issue concerning negative sides of EU integration we will discuss further.

The interest of the EU in Ukraine. From the EU perspective, Ukraine is considered to be a country of high interest for the foreign capital investment to deepen economic cooperation and considering the benefits of geographical location, rich natural resources, and properly educated personnel Ukraine could add a lot to EU as well. Similarly, there are a number of problems and cautions given that the EU is now not in a hurry to carry out rapid European integration processes.

Closest strategic partner of Ukraine which joined the EU is Poland. We use Poland experience to estimate the positive sides and drawbacks of possible Ukrainian EU integration processes. Relationships between Ukraine and Poland were considered not very easy for a long period. However, for the last decades the situation has changed, and two countries made significant achievements in economic, social, and cultural spheres. Given the similarity of economic systems structures the evaluation of Poland experience and extrapolation it to Ukraine could add a lot to see more clearly the Ukraine-EU integration situation.

Estimating the experience of Poland in EU,agriculture is sectorthat maybe underthe biggest pressure

and concern for domestic country during the EU integration processes. Similar situationat one timealsowas observedin Polandand farmersinthe first years ofaccessionto the EUhave expressedconsiderableconcern about thedevelopmentof agriculture.For example, three years before Poland's EU accession, almost half of Polish farmers were skeptical about the consequences of Poland's EU accession. Furthermore, according to 5 Years of Poland's Membership (2009) in the perception of half of the respondents, at the beginning Polish agriculture was estimated to gain less profit due to EU enlargement than the EU 15 group member states (only 13% were of the opposite opinion).

However, three years after Polish accession to the European Union, opinion polls showed greatly differing results. Around three quarters of agricultural respondents believe in the positive effect and were satisfied with Polish EU membership. That is only 20% of farmers declared their companies were suffering losses due to the Poland EU accession.

Nowadays, agriculture considered to be one of those sectors that profited most from the Polish EU integration. Moreover, according to the public opinion, agriculture is the sector which gained positive results in a fastest way.Since EU accession, export dynamics have tripled in the food and agriculture product sector. The following products experienced the strongest export dynamics in value terms: liquid milk and cream (500%), wheat (400%), beef (200%), poultry (60%) and dairy products in general (60%). The strongest comparative advantages of Polish agriculture were recorded in the food-processing sector. Such quick growth was based primarily on low product prices in comparison to EU market prices and especially due to the large agricultural territories and relatively cheap labor force. The positive experience of Polish agriculture is that sector turned out to be competitive in many domains. Nevertheless, agriculture is still lagging behind other sectors in Poland and the problem is in form of an unfavorable agrarian structure and a limited or improperly addressed capital investment to cover the social costs of rural transition.

However, the future of Polish agricultural sphere is expected to depend more on quality, along with the efficient promotion of specific brands. Currently, over 70% of Polish export is directed to the European Union, mainly to Germany.

Polish economy, due to its size, have been noticed already by EU member states even on its first year of accession. However, Poles initially did not observe any positive changes on the domestic job market, they became visible starting mainly in the third year of the accession. Presently, four years after the accession, almost two-thirds of respondents believe that the membership has helped reduce unemployment in Poland.

The opinions of Polish about the impact of the integration on private businesses have not changed. Almost two-thirds of the respondents believe that they have benefited from the integration.

According to the Summary of 4 years Poland Membership (2008) the public opinion of Polish shows that accession has had a positive effect on the position of Poland on the international scene and EU space as well. About three quarters of the respondents (72%) believe that the position of Poland in Europe has improved due to its membership in EU. There are a gradually growing number of the respondents who describe Poland as a country with an average influence in the European Union, not a minor as it used to be before accession. At the same time, the number of those who believe that Poland is a country of little importance in the EU is decreasing.

Today Poland presents a strong and continued support for further widening to the East particular concerning the Ukraine and Moldavia (without exclusion of Belarus in the future).

The successful implementation of EU integration process is possible only due to regional integration and sectoral cooperation between domestic country and EU. Given the importance for the EU trend expressed in the slogan "From EU countries to the EU Regions", this trend is of particular importance.

Regional disparity is one of the major challenges for cohesion policy in Poland, but it is strongly linked with agriculture. Poland's regions differ with regard to their natural environment, climate, land and economic development, which influence the standard of living of their inhabitants. Consequently, some regions, mostly in the west of the country, are well developed, whereas some regions in the northeast and southwest of Poland still face ongoing economic and social problems. In many of these regions, agriculture is still one of the main professional activities.

Similar situation today is observed in Ukraine. Economic reforms in Ukraine were performed without major consideration of the regional factor. Statistic data shows significant regional economic disparities in Ukraine during 1990s. Thus, in 1998 regional per capita income was 888 UAH in Vinnytsa region, 886 UAH in Volyn region and 1691 UAH in Donetsk region or 1951 UAH in Dnipropetrovsk regions. That is on average the difference between poor and rich regions within one country was about two times. Considering the ecological indicators such as per capita emissions, rich regions were more than 20 times "dirtier" than poor ones. Little has been changed even during next 10 years of Independence. Major regional differences in terms of basic social living standards may cause serious economic, social and ecological problems. Therefore, development and transformation of national economy should consider not only structural reforms and increase in per capita GDP, but special attention has to be paid to equilibration (leveling) of the regional development which is also related to Ukraine EU tendencies.

Poland is considered to be a strongest advocate of effective relations between Ukraine and EU. The first European aspirations of Ukraine were substantially supported by Poland. In particular Polish Foreign Minister Adam Rotfeld on March 21st, 2005, stated that Poland under any circumstances will support the European integration aspirations of Ukraine. Also, it was stated that: "At this stage we concentrate on the concrete steps of cooperation instead of empty talk about pan-European cooperation". Three days later survey in the six largest EU countries has shown EU citizens commitment to the adoption of Ukraine in the future as a full member.

Poland is interested in developing their interests to the east and increasing its influence in relations with Russia, Ukraine, Belarus, Moldova, and Central Asia.A majority of the Poles respondents believe that the position of Poland with respect to the future NATO membership for Ukraine and Georgia is consistent with the best interest of Poland.To achieve these goals Warsaw actively uses the possibilities and instruments of cooperation, which gives the European Union.

Also, it is clearly seen for today that Poland seeks to play a leading role in shaping and implementing EU policy on the eastern direction.

Ukrainian and Polish interests are really coinciding in many directions. That is Ukraine see Poland as a valuable partner in relationships with European Union, due to the interrelations of interests, experience of Poland to promote important issues in EU and its influence on European structures.

Ukrainian-Polish constructive relationship can promote mutual cooperation in the political, trade, economic, investment, energy and interregional areas.

Characteristic features of the current state of Ukrainian-Polish interstate relations are:

- Intensification of the dialogue at the highest level, aimed at filling the existing strategic partnership with real programs;
- Active works at creation a permanent institutional mechanisms network of bilateral cooperation;
- Developing new and improving existing forms of cooperation.

Thus, the Ukrainian-Polish strategic partnerships do exist today, but still has little practical content. During the visit of Ukrainian President to Poland in 2011, both parties have demonstrated an understanding of strategic partnership objectives but found no clear vision for using the full potential of bilateral relations. Therefore, updating the strategy of relations between Ukraine and Poland still remains a very important issue. In this situation the organization of Euro 2012 is an important step to stimulate bilateral cooperation between Ukraine and Poland.

European integration process is not pure benefits for both EU and domestic country. There are also some negative sides and opportunities that also have to considered. It is of particular interest to discuss EU-Ukraine cooperation policies and its results on political, economic and social spheres. One of the common methods of analysis of positive and negative aspects of integration processes is the methodology of SWOT-analysis. Matrix SWOT-analysis of Ukraine's accession to the EU is shown on at table 2.

Table 2. SWOT – analysis of Ukrainian integration to EU*

S (strong) features ***1.Economicbenefits:*** – Modernization of the economy – Additionalinvestment inUkrainian economy; – Subsidiesto degradingagriculture; – A positivetrade balance; – Currency and macroeconomic stability ***2.Socialbenefits***: – Mutual cultural development – Effective protection of human rights in the EU institutions; – Openingborders for free movement ofpeople; – Ensuring high living standards.	O (opportunities) ***1. Economic Prospects:*** – Technological development and cooperation – Decreasing the shadow economy sector – Ensuring the development of SMEs; – Introduction of EU standards in production. – Availability of EU market for domestic products distribution ***2. Social Perspectives:*** – The middle-class development; – Education reform, health care, social security – Establishing a stable political system
W (Weakness) ***1. Political drawbacks*:** – Partial loss of sovereignty; – Uncertainty of EU development strategy; – Deterioration of relations with CIS countries. ***2 Economic disadvantages:*** – Loss of competitiveness of certain industries; – The complexity of the transition to European prices; – Quotas for certain goods. ***3 Social disadvantages:*** – Complications of the visa regime with its Eastern neighbors.	T (threats) ***1 Politicalthreat:*** – Risk ofinvolvementof Ukraine in the conflict of civilizationsbetween the West andMuslim world. ***2 EconomicThreat:*** – Possiblemove to Ukraine of hazardous industries; – UseUkraine as araw appendix; – The use of Ukrainianas cheap labor. ***3 Socialthreats:*** – Deepeningdemographicdecline; – Illegalmigration andoutflow of personnel.

* table is mostly based on work Osadcha (2011)

Support for Ukrainian membership in EU was changing due to the changes in Ukrainian policy and its visibility on world area. For example, at the beginning of 2005 after the "Orange revolution" the support of Ukrainian-EU aspirations increased in all member states, however to different pattern. Thus, some old EU Member States were less than half supporting Ukraine e.g. in Denmark the respective figures are 41% for and 48% against, in Belgium 44% for and 52% against or in France 38% for and 48% against. The same situation was observed in Check republic 46% of respondents supported the membership of Ukraine and 45% opposed it, in one-year term only 40% wanted Ukraine to join the EU while 49% opposed it.

This trend is in sharp contrast to the public attitudes in most other new Member States. The most vigorous supporters of Ukrainian EU integration processes are Poland 65% in favor, 19% against, Lithuania with 67% in favor, 14% against and Slovenia 66% in favor, 27% against. For instance, in Poland (often viewed as the primary advocate in recognizing Ukraine as a future EU candidate), the support decreased by 11% between spring and autumn 2005 (while in case of the Czech Republic it fell "only" 6%). The failing support for the membership of Ukraine might probably be explained by a possible mistrust towards future EU enlargement following the French and Dutch "no" to the Constitutional Treaty or difficult negotiations over the EU budget.

According to Bertelsmann Stiftung Opinion poll "One in three Europeans believes Ukraine will be among the new members". When asked about the prospects for individual countries, only 37% think that Turkey will become a full member and 35% believe that Ukraine will achieve full member status. Only one in three Europeans, however, predict that Turkey or Ukraine will be among the new members. The majority of respondents believed that both countries would not join the Union by 2020. Only a handful of the respondents from the Central and Eastern Europe could envisage Turkey or/and Ukraine as EU members in fifteen years' time.

According to an opinion poll carried out in July 2000 by the Ukrainian Center for Economic and Political Studies (UCEPS) to survey perceptions about EU enlargement process the national decision-making elite was the strongest supporter of the European integration idea (48%). The advocates of this course were more numerous than advocates of integration with Russia, the CIS or the USA taken together (39%). However, the Ukrainian population seemed to be more supportive of the idea of integration with the CIS and, primarily, Russia (57% support), while only 29% saw relations with the EU as the top priority (Inna Pilsudska, 2011)

It is not just that Ukrainian GDP per capita is only a quarter of Slovakia's and less than a fifth of Hungary's. It is clearly seen that new EU countries like Romania and Bulgaria are also doing rather modestly in terms of their economic development. The problem with Ukraine is that it has been too slow in transforming its institutions, economy and society to be a credible applicant.

Much of the attention is still placed to the misunderstanding in democracy priorities in Ukraine and weak political will of national elite. On the other hand, EU is still paying little attention to change the situation in terms of institutional and political support of positive changes in Ukraine. For example, Bulgaria and Romania being at the road of integration processes were supported and EU facilitated the development of institutions that would allow those countries to be fully compatible with EU institutions and practices.

However, so far, the EU has not shown much enthusiasm for Ukraine's integration initiative, explicitly indicating that Ukraine should meet its obligations under the PCA first. Direct contacts between Ukrainian ministries and other executive bodies of the European Commission remain scarce. All meetings of the Ukraine-EU Cooperation Council up to the 2011 mostly produce only declarations of intent to continue discussion. Also, macroeconomic and competitiveness indicators are of great importance. According to the gross competitiveness index (GCI) Ukraine is still lags behind average planet indicators (82 position out of 133 in 2009-2010 and 89 position in 2010-2011) and to be suitable for EU it should be at least first 30%.

Despite the large competitiveness differences between EU and Ukraine the common international trade (in terms of import-export operations) is rather big. Ukrainian main trading partner except the CIS states is EU, and its share in Ukraine's total trade is 22.5% (15.4 % of imports, 14.8 % of exports). While the Ukraine's share in EU trade is negligible and in 1995 accounted for 0.4% of EU exports and 0.3% of imports. By 1999 the former had declined to 0.3% per cent, with the share of imports remaining unchanged at 0.3%.

It should be also named that one of the biggest Ukrainian drawbacks in EU integration policies are the development of institutions and macroeconomic stability. It clearly seen in 2011 that democratic institutions and human rights freedoms are valued more in EU-Ukrainian integration processes than economic achievements and mutual cooperation history. Below we present results of competitiveness report of Ukrainian ranking against other world countries.

Table 3. Competitiveness Report 2010–2011 Ukraine

Meaning of subindex	**2010-2011**	**2011-2012**	**Change during the period**
Basic requirements	102	98	+4
1st pillar: Institutions	*134*	*131*	*+3*
2nd pillar: Infrastructure	68	71	-3
3rd pillar: Macroeconomic environment	*132*	*112*	*+20*

4th pillar: Health and primary education	66	74	-8
Efficiency enhancers	72	74	-2
5th pillar: Higher education and training	46	51	-5
6th pillar: Goods market efficiency	129	129	0
7th pillar: Labor market efficiency	54	61	-7
8th pillar: Financial market development	119	116	+3
9th pillar: Technological readiness	83	82	+1
10th pillar: Market size	38	38	0
Innovation and sophistication factors	88	93	-5
11th pillar: Business sophistication	100	103	-3
12th pillar: Innovation	63	74	-11

Source: The Global Competitiveness Report 2010–2012. – Link: http://www.weforum.org/

Summing up theseventeenrounds of negotiations, we can speak ofakeyprogress towardsan Association Agreement:

- Approvedthe agreement asthe nameof the futureAssociation Agreement;
- Confirmed thewillingness ofthe partiesto laya newfoundation forfurther development of relationson the principles ofpolitical association andeconomic integration;
- Starta dialoguein order to introducevisa-freeshort-termtravel of citizensof Ukraine to theEU member states;
- At the expertlevel it isagreedtext of allsections, except for the sectionof the FTA;

As for internal reforms, Ukraine needs to implement a number of urgent fundamental systemic transformations, based on Ukrainian national idea, namely:

1) *Economic sphere*:

- Implement a strategy of advanced development that will ensure an annual GDP growth in Ukraine at a level of 6-7% (in 1.5-2 times higher than in the whole EU), in is necessary conditions to overcome economic gap in macroeconomic indicators between Ukraine and EU member states;
- Master the innovative model of structural adjustment and growth to be compatible with other EU states;
- Create an optimal and self-sufficient in terms of national interests, the structure of Ukraine's economy, able to operate stably in the case of regressive phenomena in the development of the EU;
- Save the high-tech industries prospects of military-industrial complex, especially the space industry;

2) *Social sphere*:

- Provide conditions to decrease poverty in Ukraine, improve living standards and strengthening the middle class;
- To work out political stability and democratization society;
- To form a reliable national security legal code in the field of migration and citizenship of Ukraine;
- In the context of education and science it is necessary to improve implementation of Bologna educational system, avoiding the privatization of the educational process and stimulate national research institutions to participate in international scientific programs;
- Intensify efforts in addressing the demographic problems;
- Create and implement an effective program of sound family.

3) *In the political sphere:*

- Actively participate in shaping the strategy further development of the EU, as an equal partner for the protection of national and European interests;
- Explore the possibility of coordinated customs policy with Russia, as a condition for forming a free trade zone between the two countries.

The basisof political associationshould be placed on the convergence ofUkraine with EU positionson all issuesof international peaceand security,ensuringthe direct participationof Ukraine in thepolicies,EU agencies and programs, communityactionto ensurenational security interestsof the Ukrainian state.

At the core ofeconomic integrationshould be comprehensivefree trade area (FTA) Ukraine -EU based onthe four freedoms,aimed atthe gradual integrationof Ukraine into theEU market. That processes have been successfully promoted in 2011.

A number of decrees and resolutions were adopted to facilitate approximation of Ukrainian legislation to the EU. However, prospects for making practical steps have been largely affected by the lack of adequate institutions capable of producing the desired change. Ukraine had failed to meet 22 provisions of the PCA and was too far, for a long time, from meeting the WTO requirements preceding the creation of a free trade area with the EU. Yet discussions between the Ukrainian leadership and EU officials within the Ukraine-EU committee in charge of monitoring implementation of the PCA have apparently been limited to declarations that the EU supports Ukraine's striving for European integration and welcomes closer relations with Ukraine.

In our opinion, it is time to revise Ukrainian controversial achievements of the last period and find the best way to increase their competitive capacity and ability to be a full subject of international relations.

Questions for self-checking:

1. What are the objectives of the European Neighbourhood Policy?
2. The official text of the Agreement consists of (Agreement on partnership and cooperation between the European Communities and Ukraine) (to name the main points):
3. Basic Principles of the GATT / WTO:
4. Planned DCFTA zones?

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Chapter 4: THE CONTENT OF DCFTA BETWEEN EU AND UKRAINE

On the 1 January 2016 the Agreement on Deep and comprehensive free trade area (DCFTA) between Ukraine and the European Union came into force. Temporary application of the economic part of Chapter IV of the Agreement started on April 23, 2014, unilaterally – Ukraine had the right to use quotas on duty-free export to the EU, at the same time the EU countries supplied products under general conditions. Only on January 2016, the Agreement started to function bilaterally (Deep, 2018).

In the table 1 the content of Chapter IV Trade and trade-related mattersof Association Agreement between Ukraine and the European Union is presented.

Table 1 Content of Chapter IV of Association Agreement

Chapter	**Main sections**	
Title IV Trade and trade-related matters		
National treatment and market access for goods	Elimination of customs duties, fees and other charges Non-Tariff measures Specific provisions related to goods Administrative cooperation and coordination with other countries	
Trade remedies	Global safeguard measures Safeguard measures on passenger cars Non-cumulation Anti-dumping and countervailing measures Consultations Institutional provisions Dispute settlement	
Technical barriers to trade		
Sanitary and phytosanitary measures		
Customs and trade facilitation	Objectives Legislation and procedures Relations with the business community Fees and charges Customs valuation Customs cooperation	Mutual administrative assistance in customs matters Technical assistance and capacity-building Customs Sub-Committee Approximation of customs legislation
Establishment, trade in services and electronic commerce	General provisions Establishment Cross-Border supply of services Temporary presence of natural persons for business purposes	Regulatory framework Electronic commerce Exceptions
Current payments and movement of capital	Current payments Capital movements Safeguard measures Facilitation and further liberalization provisions	
	Objectives	

Public procurement	Scope Institutional background Basic standards regulating the award of contracts	Planning of legislative approximation Market access Information Cooperation
Intellectual property	General provisions Standards concerning intellectual property rights Enforcement of intellectual property rights	
Competition	Antitrust and mergers State aid	
Trade-Related energy	Definitions Domestic regulated prices Prohibition of dual pricing Customs duties and quantitative restrictions Transit Transport Cooperation on infrastructure Unauthorised taking of energy goods Interruption	Regulatory authority for electricity and gas Relationship with the Energy Community Treaty Access to and exercise of the activities of prospecting, exploring for and producing hydrocarbons Licensing and licensing conditions
Transparency	Objective and scope Publication Enquiries and contact points Administrative proceedings Review and appeal	Regulatory quality and performance and good administrative behaviour Non-discrimination
Trade and sustainable development	Context and objectives Right to regulate Multilateral labour standards and agreements Multilateral environmental agreements Trade favouring sustainable development Trade in forest products Trade in fish products Upholding levels of protection	Scientific information Review of sustainability impacts Civil society institutions Institutional and monitoring mechanisms Group of Experts Cooperation on trade and sustainable development
Dispute settlement	Arbitration procedure Compliance Common provisions General provisions	
Mediation mechanism	Procedure under the mediation mechanism Implementation General provisions	
Protocol I – Rules of origin	Rules of origin define the 'economic nationality' of products needed to determine the duties applicable to them when traded. In the DCFTA, the rules are based on the usual criteria.	
Protocol II – Mutual administrative assistance in customs matters	It sets out a legal framework for cooperation between the Parties' competent authorities in tackling customs irregularities and fraud.	
Protocol III – Protocol on a Framework Agreement between the European Union and Ukraine on the General Principles for the Participation of Ukraine in Union Programmes	It sets out core principles for Ukraine's financial contribution and participation in monitoring current and future EU programmes.	

Compiled by the authors on the basis of (Association, 2014; EU-Ukraine, 2018).

The Deep and Comprehensive Free Trade Area (DCFTA) is part of the Agreement (AA) between the EU and the Republic of Ukraine, one of EU's the most ambitious bilateral agreements yet. The DCFTA will offer Ukraine a framework for modernising its trade relations and for economic development by the opening of markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonisation of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards (EU-Ukraine, 2018).

From October 2017 and from January 2018, 8 additional quotas for duty-free exports to the EU to honey, groats and flour, processed tomatoes, grape and apple juice, grains (oats, wheat, corn and barley) began to operate with the main quotas (Deep, 2018).

The main aims of Chapter “Market Access for Goods” is to remove customs duties on imports and exports. The vast majority of customs duties on goods will be removed as soon as the Agreement enters into force.

Defenition

'Customs duty' includes any duty or charge of any kind imposed on, or in connection with, the import or export of a good, including any form of surtax or surcharge imposed on, or in connection with, such import or export. A 'customs duty' does not include any:

(a) charge equivalent to an internal tax imposed consistently with Article 32 of this Agreement; (b) duties imposed consistently with Chapter 2 (Trade Remedies) of Title IV of this Agreement; (c) fees or other charges imposed consistently with Article 33 of this Agreement.

Overall, Ukraine and the EU will eliminate respectively 99.1% and 98.1% of duties in trade value. For industrial goods, the calendar for liberalisation foresees the immediate removal of existing tariffs on most products, with exceptions for a few for which a transition period exists, in particular for the automotive sector in the case of Ukraine.

For agricultural goods, ambitious concessions have been made taking into account specific sensitivities. Thus, duty-free tariff rate quotas been granted to the Ukraine for cereals, pork, beef, poultry and a handful of additional products, while for others the progressive elimination by the EU of the custom duties will occur over a longer transition period (generally 10 years). This means that for particularly sensitive sectors, the gives producers more time to adapt to a more competitive environment while offering consumers a wider choice of products at lower prices.

As regards non-tariff barriers (NTB) on trade in goods, the Agreement incorporates fundamental WTO rules on NTBs, such as national treatment, prohibition of import and export restrictions, disciplines on state trading etc. Export duties will be prohibited from day one, with some temporary exceptions for Ukraine on a few agricultural and metal products.

Under the DCFTA the elimination of customs duties are as follows:

1. The FTA will create opportunities for trade by lowering tariffs on imports. Ukrainian exporters will save €487m annually due to reduced EU import duties. Ukraine will remove around €391m in duties on imports from the EU, with longer transition periods than the EU for certain goods.
2. Ukrainian agriculture will benefit most from cuts in duties: €330m for agricultural products, and €53m for processed agricultural products. New market opportunities in the EU and higher production standards will spur investment, stimulate the modernisation of agriculture and improve labour conditions.
3. Both sides will fully liberalise trade in industrial products, with Ukraine reducing duties on machinery and appliances by €75.2m. There are some exceptions for cars, but Ukraine will still cut duties on vehicles by €117.3m.
4. The textiles sector will be fully liberalised from day one with Ukraine and the EU cutting duties worth €8.7m and €24.4m respectively. Special conditions will apply for five years to second-hand clothing.
5. Reduced EU tariffs on chemicals will cut duties paid by Ukrainian exporters by €26.8m, while Ukraine will cut duties by €64.3m.

According to the article 29 of Associate Agreement five years after the entry into force of this Agreement, at the request of either Party, the Parties shall consult one another in order to consider accelerating and broadening the scope of the elimination of customs duties on trade between themselves. A decision of the Association Committee meeting in Trade configuration as set out in Article 465 of the Agreement (hereinafter referred to also as the "Trade Committee") on the acceleration or elimination of a customs duty on a good shall supersede any duty rate or staging category determined pursuant to their Schedules for that good.

Due to political pressure by Russia, the EU and Ukraine postponed the provisional application of the DCFTA to 1 January 2016. However, the EU liberalised access to its market in April 2014 by providing Ukraine with Autonomous Trade Measures (ATMs).

These measures have so far only had a limited impact on Ukraine's exports to the EU due to the suspension of production in the occupied territories, logistical problems and downward price trends for world commodity markets.

However, the EU's share in Ukrainian exports and imports has increased because of a sizeable fall in trade with Russia. The structure of exports to the EU has shifted towards machinery, fats and oils, prepared foods and animal products.

The utilisation of tariff-rate quotas for agricultural products was limited because Ukrainian producers experienced problems with food security and weak demand for its production.

Safeguards for Ukraine's car industry constitute a major source of protection, which will help Ukrainian producers in the short run, but at the expense of their integration into competitive European supply chains, and with costs for consumers.

Joining the Pan Euro-Mediterranean system for rules of origin is an important issue for Ukraine as it will allow the country to apply diagonal cumulation among its members. Ukraine intends to join this system, but so far made no significant progress (Emerson, 2016).

Chapter "Trade remedies" of DCFTA covers traditional trade defence instruments (anti-dumping, anti-subsidy and global safeguard). WTO rights and obligations will be applied to ensure fair treatment, for example, anti- dumping duties will be capped to the level of dumping or subsidy. A public interest test may be carried out before imposing any measures. The DCFTA will increase the transparency of investigations and Parties will set up a mechanism for cooperating on trade remedies.

An agreement on cars will allow Ukraine to apply a well-defined safeguard measure for 15 years on cars imported from the EU. In the reference period 2002-2010, Ukraine imported on average 41.000 cars a year from the EU, 12.9% of the Ukrainian market (EU-Ukraine, 2018).

According to the Article 44 of Associate Agreement Ukraine may apply a safeguard measure in the form of a higher import duty on passenger cars originating in the EU Party under tariff heading 8703 (hereinafter referred to as the "product"), as defined in Article 45 of Associate Agreement, in accordance with the provisions of this Section, if each of the following conditions is met:

- if, as a result of the reduction or elimination of a customs duty under Associate Agreement, the product is being imported into the territory of Ukraine in such increased quantities, in absolute terms or relative to domestic production, and under such conditions as to cause serious injury to a domestic industry producing a like product;
- if the aggregate volume (in units) of imports of the product in any year exceeds the trigger level set out in its Schedule included in Annex II (table 2) to Associate Agreement;
- if the aggregate volume of imports of the product into Ukraine (in units) for the last 12-month period ending not earlier than the penultimate month before Ukraine invites the EU Party for consultations in line with paragraph 5 of 44 Article exceeds the trigger percentage set out in the Schedule of Ukraine in Annex II (table 2) of all new registrations of passenger cars in Ukraine for the same period (Association, 2014).

Table 2 Safeguard measures on passenger cars

Indicator/Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Trigger Level (units)	no safeguard applicable	45 000												
Trigger percentage, %		20	21	22	23	24	25	25	25	25	25	25	25	25
Maximum level of import duty plus safeguard surcharge, %*		10												

**The import duty level applicable – see schedule of commitments for respective tariff lines under tariff heading 8703*

In the Chapter "Trade remedies" the following terms were defined:

- "***the product***" means only passenger cars originating in the EU Party and falling under tariff heading 8703 in accordance with the rules of origin established in Protocol I to this Agreement concerning the definition of the concept of 'originating products' and methods of administrative cooperation;

- "***serious injury***" shall be understood in accordance with Article 4.1(a) of the Agreement on Safeguards. To this end, Article 4.1(a) is incorporated into and made part of this Agreement, *mutatis mutandis*;
- "***like product***" shall be understood to mean a product which is identical, i.e. alike in all respects to the product under consideration, or in the absence of such a product, another product which although not alike in all respects, has characteristics closely resembling those of the product under consideration;
- "***transition period***" means a 10-year period beginning on the date this Agreement enters into force. The transition period will be extended for three more years, if before the end of the year 10, Ukraine has presented a reasoned request to the Trade Committee referred to in Article 465 of this Agreement and the Trade Committee has discussed it;
- "***year one***" means the 12-month period beginning on the date of entry into force of this Agreement;
- "***year two***" means the 12-month period beginning on the first anniversary of the entry into force of this Agreement;
- "***year three***" means the 12-month period beginning on the second anniversary of the entry into force of this Agreement;
- "***year four***" means the 12-month period beginning on the third anniversary of the entry into force of this Agreement;

year five...Сховати

- "**year five**" means the 12-month period beginning on the fourth anniversary of the entry into force of this Agreement;
- "**year six**" means the 12-month period beginning on the fifth anniversary of the entry into force of this Agreement;
- "**year seven**" means the 12-month period beginning on the sixth anniversary of the entry into force of this Agreement;
- "**year eight**" means the 12-month period beginning on the seventh anniversary of the entry into force of this Agreement;
- "**year nine**" means the 12-month period beginning on the eighth anniversary of the entry into force of this Agreement;
- "**year ten**" means the 12-month period beginning on the ninth anniversary of the entry into force of this Agreement;
- "**year eleven**" means the 12-month period beginning on the tenth anniversary of the entry into force of this Agreement;
- "**year twelve**" means the 12-month period beginning on the eleventh anniversary of the entry into force of this Agreement;
- "**year thirteen**" means the 12-month period beginning on the twelfth anniversary of the entry into force of this Agreement;
- "**year fourteen**" means the 12-month period beginning on the thirteenth anniversary of the entry into force of this Agreement;
- "**year fifteen**" means the 12-month period beginning on the fourteenth anniversary of the entry into force of this Agreement.

Article 54 regulates the technical cooperation, the Parties shall seek to identify, develop and promote trade-facilitating initiatives which may include, but are not limited to:

- reinforcing regulatory cooperation through the exchange of information, experience and data; scientific and technical cooperation, with a view to improving the quality of their technical regulations, standards, testing, market survey lance, certification, and accreditation, and making efficient use of regulatory resources;
- promoting and encouraging cooperation between their respective organisations, public or private, responsible for metrology, standardisation, testing, market surveillance, certification and accreditation;
- fostering the development of the quality infrastructure for standardisation, metrology, accreditation, conformity assessment and the market surveillance system in Ukraine;
- promoting Ukrainian participation in the work of related European organisations;
- seeking solutions to trade barriers that may arise;
- coordinating their positions in international trade and regulatory organisations such as the WTO and the United Nations Economic Commission for Europe (hereinafter referred to as "UN-ECE").

Thus, the aims of Chapter 3 "Technical barriers to trade" is to reduce obstacles to trade arising from Technical Barriers to Trade (TBT): technical regulations, standards, conformity assessment procedures and similar requirements.

The parties reiterate their commitments under the World Trade Organisation Agreement on TBTs and agree to cooperate on TBT issues to simplify and avoid unnecessary divergence of technical requirements.

Ukraine will progressively adapt its technical regulations and standards to those of the EU. Future negotiation of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) will provide that in specific sectors covered by it trade between the Parties will take place under the same conditions as between EU Member States.

Provisions on labelling seek to keep it to a minimum to make it non-discriminatory. Harmonisation and/or mutual recognition of technical standards should cut existing non-tariff barriers in the agri-food sector by half and 35% in other sectors compared to 2004.

The DCFTA includes key measures to ensure fast and efficient customs services.

Ukraine is progressing towards fulfilling its legislative commitments, with the new Customs Code (2012) being broadly aligned with EU legalisation, although several amendments are still required.

The main task for Ukraine is to ensure efficient implementation of existing legislation. Both public authorities and businesses have responsibilities in this regard. There remain serious problems of long queues and delays at crossing points with EU member states (Emerson, 2016).

The adoption of European technical standards for industrial products is vital for the modernisation and competitiveness of the Ukrainian industry.

Ukraine has adopted a Strategy for Development of Technical Regulation System until 2020 to eliminate technical barriers in trade with the EU.

Ukraine is making good progress in first approximating the limited EU relevant directives, and second in adopting the huge number of European standards.

Ukraine's national accreditation system achieved recognition from the European Cooperation for Accreditation and the International Laboratory Accreditation Cooperation.

Progress in establishing proper market surveillance system is proving more difficult (Emerson, 2016).

This chapter aims to facilitate trade in SPS related goods including animals, animal products, plants and plant products, whilst safeguarding the Parties' level of protection. The Parties will seek a common understanding on animal welfare standards taking into account developments in the World Organisation for Animal Health (OIE). They will align legislation and conclude a veterinary and phytosanitary chapter.

The process covers:

1. Commitment to respect the principles of the WTO/SPS Agreement;
2. Ukrainian commitment to align its SPS and animal welfare legislation to the EU's;
3. Setting up a rapid consultation mechanism to solve trade irritants in SPS related goods;
4. Setting up a rapid alert and early warning system for veterinary and phyto-sanitary emergencies. Under certain conditions, the relevant EU systems for early warning could also be opened to

Ukraine's participation.

The SPS Chapter will be implemented by a new Subcommittee on SPS measures which will monitor progress, provide recommendations, develop procedures, and provide a forum addressing problems.

The SPS chapter will deal with verification procedures, listing of establishments, levels of checks, and settlement of trade problems. It covers all trade-related animal and plant health, food safety and animal welfare measures.

Measures applicable to main live animal categories:

1. Equidae (including zebras) or asinine species or the offspring of crossing of those species
2. Bovine animals (including Bubalus bubalis and Bison)
3. Ovine and caprine animals
4. Porcine animals
5. Poultry (including fowl, turkeys, guineafowl, ducks, geese)
6. Live fish
7. Crustaceans
8. Molluscs
9. Eggs and gametes of live fish
10. Hatching eggs
11. Semen-ova-embryos
12. Other mammals
13. Other birds
14. Reptiles
15. Amphibians
16. Other vertebrates
17. Bees

Measures applicable to animal products:

1. Fresh meat of domestic ungulates, poultry and lagomorphs, farm and wild game, including offal
2. Minced meat, meat preparations, mechanically separated meat (MSM), meat products
3. Live bivalve molluscs
4. Fishery products
5. Raw milk, colostrum, dairy products and colostrum-based products
6. Eggs and eggs products
7. Frogs' legs and snails
8. Rendered animal fats and greaves
9. Treated stomachs, bladders and intestines
10. Gelatine, raw material for the production of gelatine for human consumption
11. Collagen
12. Honey and apicultural products

Measures applicable to food and feed additives:

Food:

1. Food additives (all food additives and colours);
2. Processing aids;
3. Food flavours;
4. Food enzymes.

***Feed*:**

1. Feed additives;
2. Feed materials;
3. Compound feed and pet food except;
4. Undesirable substances in feed.

The Annex II VI-B regulates the recognition of the pest status, pest-free areas or protected zones. Each Party shall establish and communicate a list of regulated pests based on the following principles:

A. Recognition of pest status.

1. Pests not known to occur within any part of its own territory;
2. Pests known to occur within any part of its own territory and under official control;
3. Pests known to occur within any part of its own territory, under official control and for which pest-free areas/protected zones are established.

Any change to the list of pest status will be immediately notified to the other Party unless otherwise notified to the relevant international organization.

B. Free Areas (PFAs) and protected zones.

The Parties recognise the concept of PFAs, and their application in respect of relevant ISPMs, as amended from time to time and protected zones.

The chapter ‘Customs and trade facilitation’ seeks to enhance co-operation in customs and customs-related matters and to simplify customs requirements and formalities, while at the same time preventing fraud.

Building on current cooperation on customs matters, the Protocol on mutual administrative assistance in customs matters provides a stronger legal framework for efforts to ensure the correct application of customs legislation and the fight against infringement. Both sides will supply each other with all relevant information needed to conduct investigations, including the possibility for officials of the one Party to participate in administrative enquiries in the territory of the other Party.

A competitive and diversified services sector is of huge importance for the Ukrainian economy.

The Agreement is detailed and comprehensive in both commitments to liberalisation and reservations. The text is asymmetric, with more liberalisation and fewer reservations on the Ukrainian side, which however is consistent with the urgent need for the Ukrainian economy to be modernised.

The Agreement makes provisions for a few services sectors to attain ‘full internal market treatment’ by the EU as a long-term objective (Emerson, 2016).

The DCFTA contains a provision for temporary withdrawal of preferences as a safeguard in the event of insufficient cooperation.

The main aspects of integrating Ukraine as much as possible into the EU market is presented in the chapter ‘Establishment, trade in services and electronic commerce’. Unlike classical FTAs, it provides for both the freedom of establishment in services and non-services sectors, subject to limited reservations, and the expansion of the internal market for a set of key services sectors once Ukraine effectively implements the EU-acquis.

The agreement provides for a right of establishment (as opposed to commercial presence) in services and non-services sectors. This right is subject to a number of reservations identified in a negative list. This approach is unprecedented for the EU and guarantees automatic coverage for new services and further liberalisation not listed as exceptions. Provisions for domestic regulation, postal and courier services, financial services and telecommunication services will improve transparency and legal certainty for EU investments in Ukraine. The focus here is on "behind the border" issues.

The DCFTA is complemented by a process of legislative approximation in financial services, telecommunications services, postal and courier services, and international maritime services. The Ukraine is committed to take over the existing and future EU-acquis in those sectors and, when it has done so, Ukrainian firms will be granted access to the EU internal market for the sectors concerned: this is an unprecedented level of integration. The approximation process will also mean that EU investors in

those sectors will find the same regulatory environment in Ukraine as in the EU.

Provisions on free movement of capital will include standard safeguards with a possibility to apply measures to ensure the stability of the financial system.

Ukraine will, over several years, adopt current and future EU legislation on public procurement. With the exception of defence procurement, Ukrainian suppliers and service providers will have full access to EU public procurement markets, and EU suppliers and service providers will have the same to the Ukrainian procurement market. The chapter is an unprecedented example of the integration of a Non-EEA-Member into the EU Single Market (Chapter 8 of Associate Agreement).

Ukraine's IPR system has some gaps in relation to the best European and international practices, which raises many concerns for the US and the EU. These gaps will be addressed by forthcoming legislation.

Ukraine is a member of the main IPR- related international organisations (WIPO) and international treaties (TRIPS).

The main problems are: non-transparent work of collecting societies; use of illegal software by public authorities; and online and offline infringement of copyright.

Major changes will deal with copyright and related rights, trademarks, patents and designs, geographical indications and enforcement (Emerson, 2016).

The main aspects of provisions on particular copyright, designs (including unregistered ones), patents and geographical indications (GIs) which complement and up-date the TRIPS Agreement are presented in the Chapter 9 'Intellectual property'. The chapter has a strong section on enforcement of IPRs based on the EU's internal rules.

All agricultural GIs, not only those relating to wines and spirits, will have the same high level of protection. The protection will be immediate for most EU GIs, but some names long-used by Ukrainian producers will be phased-out over different periods of time:

- 10 years for Champagne, Cognac, Madeira, Porto, Jerez /Xérès/ Sherry, Calvados, Grappa, Anis Portugues, Armagnac, Marsala, Malaga and Tokaj
- 7 years for Parmigiano Reggiano, Roquefort and Feta.

There will be updates and regular consultations to add new products to the list of protected GIs.

Chapter 10 Competition explains the Parties prohibit and sanction certain practices and transactions which could distort competition and trade. Anti-competitive practices such as cartels, abuse of a dominant position and anti-competitive mergers will be subject to effective enforcement action.

The Parties agree to maintain effective competition laws and an appropriately equipped competition authority. Both Parties agree to respect procedural fairness and firms' rights of defence. Ukraine will align its competition law and enforcement practice to that of the EU acquis in a number of fields. Competition law will apply to state-controlled enterprises. This ensures that companies of both Parties have equal access to each other markets and there is no discrimination by monopolies. Provisions set out the main principles for consultations and cooperation between the Parties.

The Parties agree to remedy or remove distortions of competition caused by subsidies where these affect trade, and to subject these commitments to the dispute settlement mechanism. Ukraine commits itself to adopting a system of control of state aids similar to that in the EU, including an independent authority. It will prohibit certain types of particularly distortive subsidies. Both Parties will report annually the total amount, types and the sectoral distribution of subsidies and will provide further information on subsidies or schemes on request. The rules on subsidies apply to all areas liberalised in the DCFTA except agriculture and fisheries.

Chapter 11 'Trade-related energy' includes specific provisions on trade related energy issues. The chapter takes into account that Ukraine is already a member of the Energy Community Treaty (EnCT), which imposes an obligation to implement the most relevant EU energy acquis on electricity and gas. The chapter covers electricity, crude oil and natural gas (in gaseous state or as LNG), its provisions being subject to dispute settlement procedure.

The four pillars of the trade-related energy chapter are:

1. Rules on pricing of energy goods. The Parties commit themselves to let market prices prevail on the domestic gas and electricity markets and not to regulate prices for industry. Neither Party will impose prices for exporting energy products which are higher than domestic prices (prohibition of dual pricing).
2. Transport and transit of energy goods. The chapter reiterates obligations laid down in Article V GATT and Article 7 of the Energy Charter Treaty. Interrupting transit or taking energy goods from transit that are destined for the other party is prohibited. An Expedited (fast track) Dispute Settlement procedure will allow for quick intervention if these rules are breached. An Early Warning Mechanism lays down standards for diplomatic consultations in the event of a security of supply problem.
3. Parties commit themselves to setting up a legally distinct and functionally independent regulator to ensure competition and an efficient functioning of the gas and electricity markets.
4. Rules on non-discriminatory access to the exploration and production of hydrocarbons (gas and oil). Once an area has been made available for exploration and production, non-discriminatory access and licensing should be provided to entities from both Parties.

Chapter 12 Transparency sets out:

- Commitments allowing interested parties to comment on proposed regulations.
- The establishment of enquiry or contact points to respond to questions arising from the application of regulations.
- Due process requirements regarding administrative proceedings, including the review or appeal of administrative actions in areas covered by the FTA.

Key elements of the Trade and Sustainable Development Chapter include:

1. Shared commitment to the core labour standards of the International Labour Organisation (ILO) and the ILO Decent Work Agenda.
2. Commitment to implement all multilateral environment agreements to which the EU and Ukraine are party, and to promote sustainable management of forestry and fisheries.
3. Confirmation of the Parties' right to regulate, while aiming at a high level of environmental and labour protection, and a commitment to refrain from waiving or derogating from such standards in a manner that affects trade or investment between the parties.
4. Strong monitoring mechanisms, building on public scrutiny through civil society involvement. Each side will designate and convene a new or existing civil society Advisory Group, including independent organisations representing sustainable development interests. The two Advisory Groups will meet annually in an open civil society forum to discuss the implementation of the sustainable development aspects of the chapter.

The Dispute Settlement mechanism is based on the model of the WTO Dispute Settlement Understanding, but with faster procedures. Consultation is followed, if unsuccessful, by referral to an arbitration panel composed of three experts chosen by the parties or selected by lot from an agreed list. The panel can receive amicus curiae submissions (contributions from stakeholders, such as the business community or the public at large, who are not a party to the case). Its ruling, delivered within 120 days, is binding, the party in breach having a reasonable period to bring itself into compliance. If it does not, the complainant is entitled to impose proportionate sanctions. Time- limits of the arbitration procedure are reduced in urgent cases, with further reductions for urgent energy disputes.

A mediation mechanism allows Parties to tackle adverse effects on trade in goods. The aim is not to review a measure's legality, but to find a quick and effective solution to market access problems.

The Parties will be assisted by a mediator they have jointly chosen or selected by lot from an agreed

list. The mediator can advise and propose a non-binding solution within 60 days. Mediation does not preclude recourse to dispute settlement (EU-Ukraine, 2018).

Question for self-checking.

1. Describe market access for goods under DCFTA.
2. Explain the trade remedies, technical barriers to trade.
3. Main principals of sanitary and phytosanitary measures under DCFTA.
4. Describe the features of customs and trade facilitation, public procurement.

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Chapter 5: DCFTA IMPLEMENTATION IN UKRAINE

From the January 1, 2016 the DCFTA has been come into power and this also can make the positive influence on economic situation in Ukraine. The main DCFTA goals are to boost trade in goods and services between the EU and Ukraine by gradually cutting tariffs and bringing Ukraine's rules in a line with the EU's in certain industrial sectors and agricultural products (Countries and regions, 2016).

Thus, the main purpose of DCFTA is creating the free trade zone between Ukraine and EU. The main aspects of DCFTA are following:

1. The import duties for mostly products which most imported to the markets of each other will be canceled in both sides.
2. The rules of origin products, which are one of the elements of the application of trade preferences, will be created.
3. Ukraine should create and adopt the technical regulations, procedures, sanitary and phytosanitary measures and food safety in accordance with European. As consequence it will be allowed that Ukrainian industrial goods, agricultural and food products will not require the additional certification in the EU.
4. All sides will have to create the particularly favorable conditions to access to their services markets.
5. The main EU rules of government tender must be implemented. As results Ukraine has opportunity to take part in market of EU tenders.
6. The customs procedures will be simplified.
7. Ukraine should strengthen the protection of property rights (Governmental Portal, 2015).

During the last two years Ukrainian economy is operating in conditions of macroeconomic fluctuations the last could be measured by the following indicators as real GDP growth, changes in private consumption, public debt developments, consumer inflation, hryvnia exchange rate per USD, current account balance, foreign direct investment.

Thus, during the third quarter of 2015, the rate of decline of GDP was up to 7% yoy, and according to Sigma Bleyzer prediction the GDP may fall by 11.5% in 2015 and may grow by 2% in 2016. Also, it seen from the table that the majority of macroeconomic indicators were deteriorating in Ukraine within in the 2015. However, the agricultural production index rose by 0.5% yoy, compared to a 4.2% yoy decline in September 2015.

Ukraine is moving in the direction of approximation to EU legislation in many areas like; competition, government procurement, and protection of intellectual property rights. It is expected that DCFTA would contribute to the modernisation and diversification of the Ukrainian economy and will create additional incentives for reform, notably in the fight against corruption. In fact DCFTA could be treated as opportunity for Ukraine to improve its business climate and to attract foreign investment, helping Ukraine to further integrate with the world economy (Trade part, 2016). However, in the conditions of macroeconomic fluctuations it is very hard to receive strong benefits due to the DCFTA implementation.

According to the official statistics, the export of products and services to Post-Soviet countries has decreased by 40% in 2015 from 2014. Moreover, the share of export goods and services to Post-Soviet countries has been decreasing from the 2013 year. Thus, in comparison to 2013 there was decreasing in 2014 about 7%, in 2015 it was 12%. From the other side the share of the export to EU has been increasing from year to year. Thus, compare to 2013 the increasing in 2014 was 5%, in 2015 was 7% (figure 1).

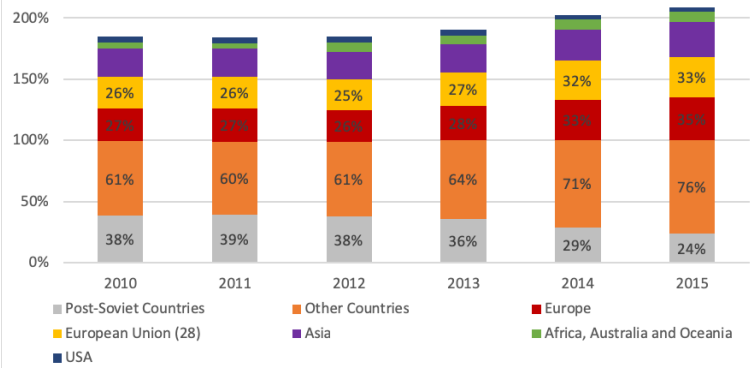

Figure 1 Share of export by country in total Ukranian export products and servicies (2010-2015), %

Source: Data from database: State Statistics Service of Ukraine

The results of import dynamics to Ukraine has showed that the import from Post-Soviet countries is also slowly decreasing and import from EU is increasing from year to year. The main Ukrainian exports are raw materials (iron, steel, mining products, agricultural products), chemical products and machinery. Unfortunately, the export of products has decreased in 2015 by 7,0%. Most of export reductions were brought by falling of mineral fuels, lubricants and related materials selling. It is necessary to underline that the import of food, drinks, tobacco and live animals has increased. In additional to that the import of animal, vegetable oils, fats and waxes had already increased in 2015 by 3.9% in comparison to 2014 (table 2). All of these testify that the entrepreneurs in the agriculture sector can receive the most positive effect of DCFTA implementation. Thus, the export of the cereal crops has increased by 3 % in 2015 comparing to 2013. Also, the export of electrical machinery and equipment also has increased by 3% in 2015 comparing to 2013.

The main Ukrainian export to EU does include small portion of machinery and transport equipment, chemicals, and manufactured goods (Countries and regions, 2016). On the contrary, the share of Manufactured goods classified chiefly by material was 27% which was higher by 8% in comparison to 2014.

The import volume of Miscellaneous manufactured articles didn't change – 22%. Increasing per 1% was by the following indicators: Chemicals and related prod, n.e.s, Crude materials, inedible, except fuels, Miscellaneous manufactured articles.

The trading balance between Ukraine and EU is presented on the figure 3. According to the results after the starting the EU integration process the difference of the trading balance has started to change to the positive side. If in 2012 the balance was €-10.01 billion, in 2013 was €-11.31 billion, so in 2014 was €-4.7 billion and in €-2.54 billion.

Of course, it is connected to the decreasing of trading volume with EU, but from the other side the reduction of trading balance is consequences of opening boundaries to EU market for Ukrainian entrepreneurs.

The EU is a large investor in Ukraine. EU investors held investments worth around €30 bn in Ukraine in 2015. It was 76.2% of total sum of investments in Ukraine. In 2015 through EU the largest investors were Cyprus (27%), the Netherlands (13%) and Germany (12%). Moreover, in 2015 year the structure of the main investors didn't change.

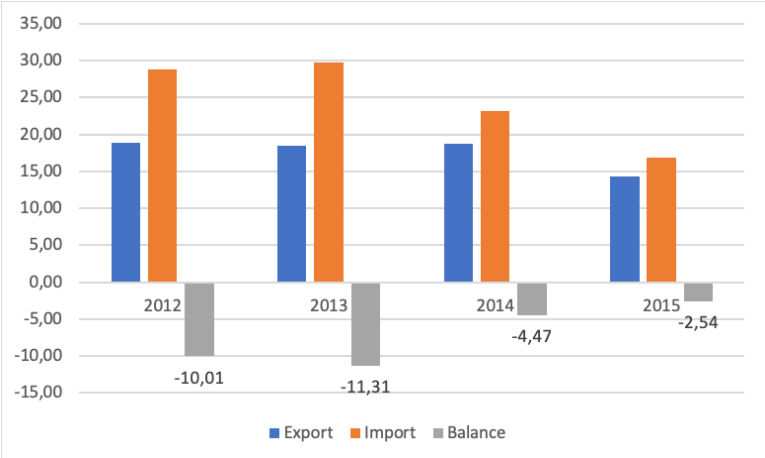

Figure 2 Dynamic in trade of goods between Ukraine and EU (2012-2015), bln euro

Source: Data from database: State Statistics Service of Ukraine

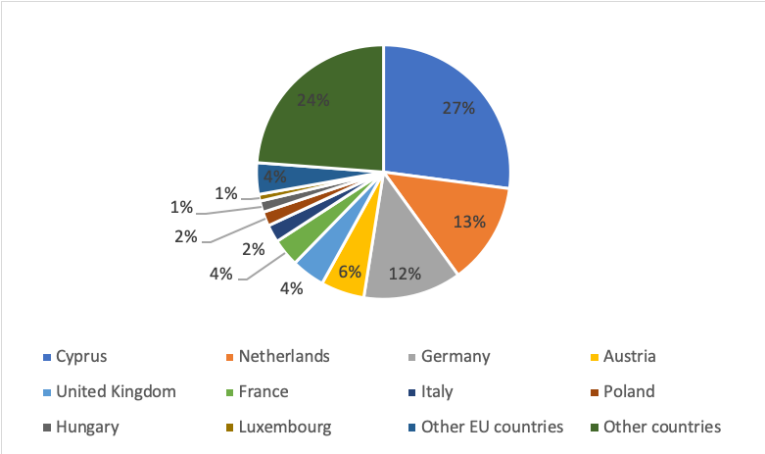

Figure 3 The foreign investors' structure in Ukraine, 2017

Source: Data from database: State Statistics Service of Ukraine

Unfortunately, the process of EU integration and market reorientation were not properly forecasted. In this case, Ukrainian entrepreneurs could not feel fast benefits from integration process and DCFTA implementation. In general, Ukraine has already harmonised a lot of its norms and standards in industrial and agricultural products and the last should stimulate better integration with the EU market. In addition, Ukraine has already aligned a lot of its legislation to the EU's in trade-related areas such as:

- competition;
- public procurement;
- customs and trade facilitation;
- protection of intellectual property rights;
- trade-related energy aspects, including investment, transit and transport (Countries and regions, 2016).

According to the Summary Report of EU Support to the Private Sector in the context of Association Agreements/DCFTAs the main constraints which limited the development of Ukrainian entrepreneur' sector is as following:

1. Cost of finance.
2. Availability of finance (willingness to lend).
3. Political instability.
4. Corruption
5. Tax rates (EU Support to the Private, 2015).

The DCFTA implementation is called not to remove the market boundaries only, however the new mutual opportunities for EU and Ukraine should arise. As a result, Ukrainian Small and Medium sized Enterprises (SMEs) have got opportunity to receive funding from the EU's SME Flagship Initiative. The mainobjectives of this Initiative for Ukraineare:

1. Help SMEs to seize new trade opportunities with the EU and within the region which have been opened up thanks to the DCFTA;
2. Improve access to finance for SMEs to make the necessary investments to comply with the provisions of the DCFTA;
3. Allow SMEs to take advantage of the increased inflow of foreign direct investment triggered by the DCFTA;
4. Enable SMEs to comply with new sanitary, phytosanitary, technical and quality standards, as well as with environmental protection measures, thereby benefiting local customers and boosting exports to the EU and beyond.

The working mechanism of EU's SME Flagship Initiative combine and harmonize three main directions (policy, intermediaries and SMEs) with purpose to solve the inclusive development issues and to provide Visibility, Communication and Awareness Raising are presented at the figure 4.

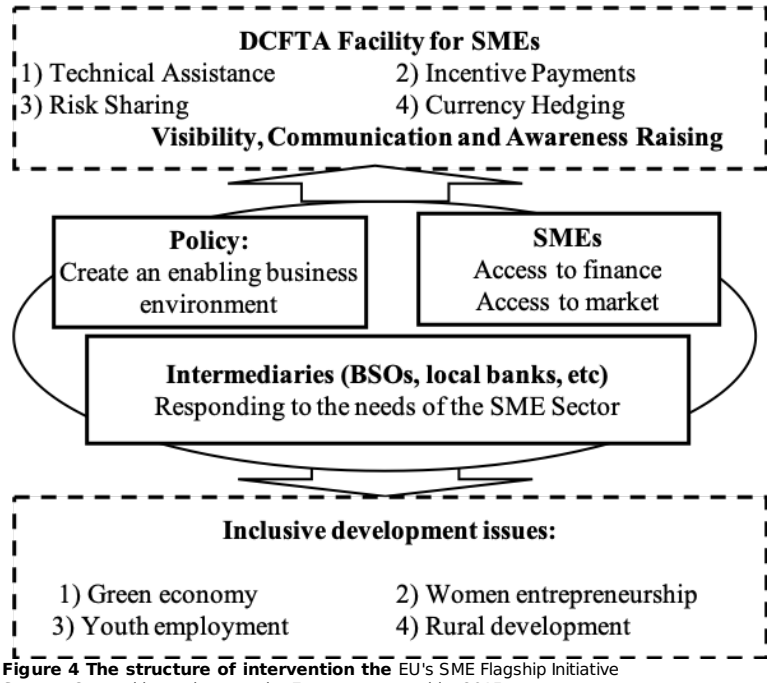

Figure 4 The structure of intervention the EU's SME Flagship Initiative
Source: Created by authors on the Eastern partnership, 2015

According to the main policy of EU's SME Flagship Initiative, the DCFTA Facility for SMEs will receive approximately € 200 millions of grants from the EU budget, which are expected to unlock at least € 2 billion of new investments by SMEs in the three countries (Ukraine, Moldova and Georgia), largely coming from new EFI loans supported by the Facility.

Such investments will transform the business fundamentals. The local banking sector, business services to SMEs, trade and quality infrastructure, and the overall business climate will highly benefit from the Facility, creating hereby a virtuous cycle of growth and contributing to significant job creation (Eastern partnership, 2015).

Thus, first of all the import and export duties and tariff quotas will be eliminated. From one side it means new opportunities for exports into the EU and enlarging the quality and range of products. At the same time, it is the threats for local entrepreneurs which are not ready to work in international market according to the EU standards. As a consequence, it will be stimulating the local entrepreneurs to become competitive or loose the business. The following consequence is reducing tariff and, most importantly, non-tariff barriers to entering the EU market, which is currently the largest regional market and one of the two largest trade partners of Ukraine (EU-Ukraine, 2015). The improving and adaptation of legislation according to EU standards allow creating the favourable domestic business climate. The increasing of compliance costs with “social” standards stipulates improvement of labour conditions, increases salary to enlarge the work opportunities in EU. In addition, DCFTA is considered to be one of engines to stimulate sustainable development. That is why the requirements for main polluters will be stretchered (Kubatko O., Pimonenko T., 2015).

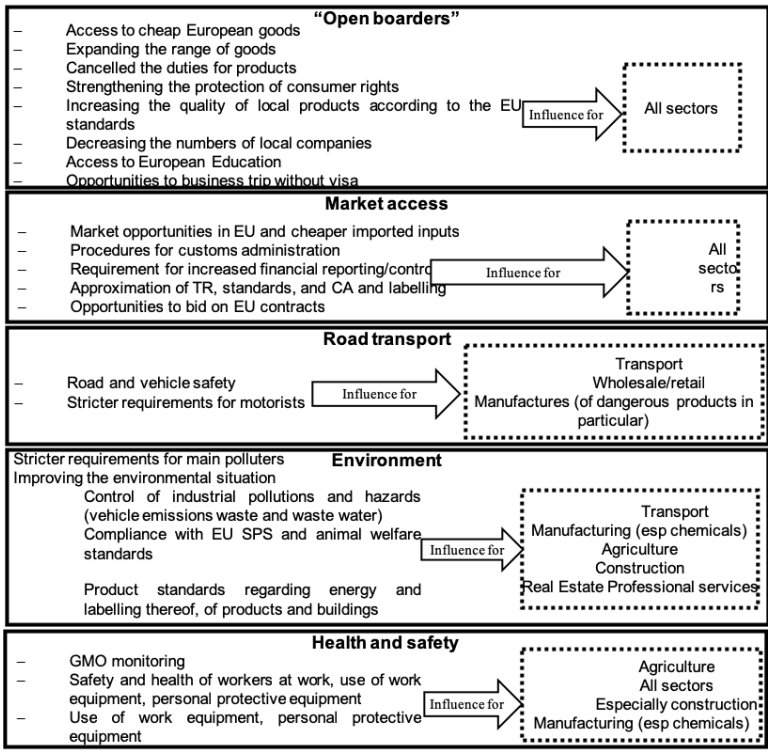

Figure 5 Systematizing the perspectives of DCFTA implementation for Ukrainian entrepreneur's sector

Source: Compiled by the authors on the basis of the literature sources (Eastern partnership,2015), (Kubatko O., Pimonenko T., 2015)

Taking into account the current situation in Ukraine the perspectives of DCFTA implementation for Ukrainian entrepreneur's sector can be improved by the following activities:

1. to decrease the gaps in the Ukrainian legislation in comparison to EU. At the same time Ukrainian entrepreneurs should quickly adopt to new conditions. That is why they should continuously improve their knowledge;
2. to create the national mechanisms for cooperation and participation in international markets. Ukrainian entrepreneurs must participate and be represented at international level.
3. to create and implement new procedures and systems needed for customs officers in issuing certificates of origin and for MEDT on administration of TRQs. And also, Ukrainian entrepreneurs should learn how to work in such requirements;
4. to create new independent non-governmental body responsible for standardization and transfer of the functions of the Secretariat of 30 technical committees on standardization. In this direction, Ukrainian entrepreneurs must prepare for the certification process;
5. to adopt and harmonize the customs administration procedures including risk assessment, post clearance controls and company audit methods according to the EU requirements.
6. to learn how to write grants and project to receive the financing support from EU sources;
7. to create administrative system for air and water quality monitoring. In such directions Ukrainian entrepreneurs should change their thinking from mainly economics results, to the environmental problems and future generation challenges. They must be ready to spend money for innovative green technologies.

After starting the EU integration process, beginning of political and military conflict between Ukraine and Russia provoke the huge range of issues and challenges for Ukrainian economy. For overcoming these issues and problems Ukraine should change and reorient policy and prioritise of cooperation. In addition, Ukraine should try to safe own balance among all spheres in the world. In 2018 (19 of May), Ukrainian Government decided to get out from the Commonwealth of Independent States.

According to the information at Wikipedia (Union State,2018) the Commonwealth of Independent States (CIS) also sometimes called the Russian Commonwealth in order to distinguish it from the Commonwealth of Nations, is a regional intergovernmental organisation of 10 post-Soviet republics in Eurasia formed following the dissolution of the Soviet Union.

Table 1 Structures of CIS on 2018

Country	Agreement/Protocol ratified	Charter ratified	Notes
Azerbaijan	24 September 1993	24 September 1993	
Belarus	10 December 1991	18 January 1994	Founding state
Kazakhstan	23 December 1991	20 April 1994	Founding state
Kyrgyzstan	6 March 1992	12 April 1994	Founding state
Armenia	18 February 1992	16 March 1994	Founding state
Moldova	8 April 1994	15 April 1994	
Russia	12 December 1991	20 July 1993	Founding state
Tajikistan	26 June 1993	4 August 1993	
Uzbekistan	4 January 1992	9 February 1994	Founding state

Union State, 2018

The CIS encourages cooperation over economic, political and military aspects and has certain powers possessing coordinating in trade, finance, law making and security. It has also promoted cooperation on cross-border crime prevention.

The CIS has its origins in the Soviet Union (USSR), which was established by the 1922 Treaty and Declaration of the Creation of the USSR by the Russian SFSR, Byelorussian SSR and Ukrainian SSR. When the USSR began to fall in 1991, the founding republics signed the Belavezha Accords on 8 December 1991, declaring the Soviet Union would cease to exist and proclaimed the CIS in its place. A few days later the Alma-Ata Protocol was signed, which declared that Soviet Union was dissolved and that the Russian Federation was to be its successor state. The Baltic states (Estonia, Latvia and Lithuania), which regard their membership in the Soviet Union as an illegal occupation, chose not to participate. Georgia withdrew its membership in 2008. Ukraine, which participated without being a member, ended its participation in CIS statutory bodies on 19 May 2018.

Eight of the nine CIS member states participate in the CIS Free Trade Area. Three organizations are

under the overview of the CIS, namely the Collective Security Treaty Organization, the Eurasian Economic Union (alongside subdivisions, the Eurasian Customs Union and the Eurasian Economic Space, which comprises territory inhabited by over 180 million people); and the Union State. While the first and the second are military and economic alliances, the third aims to reach a supranational union of Russia and Belarus with a common government, flag, currency and so on (Union State, 2018).

Unfortunately, the political and military instability influence on Ukrainian trade indicators. Thus, figure 6 presented the dynamic of trade between Ukraine and Russia.

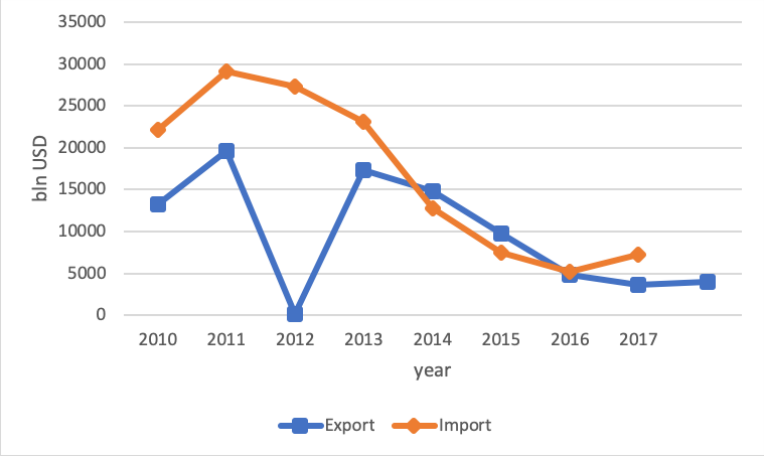

Figure 6 Dynamic of trade between Ukraine and Russia (State, 2018)

The findings showed that after 2014 the volume of trade has the decreasing trend (figure 7).

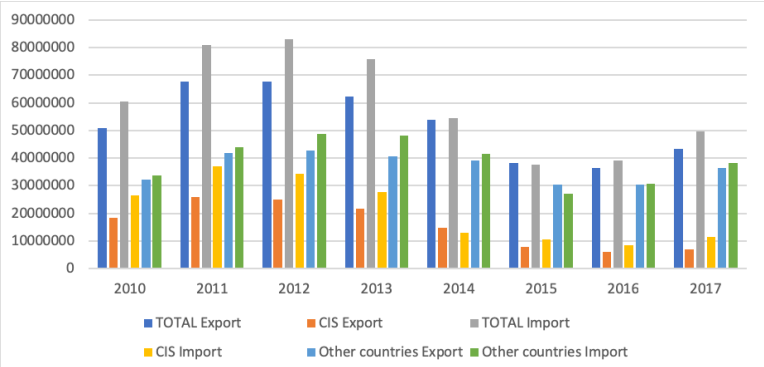

Figure 7 Export-Import Ukraine 2010-2011
Sources: State, 2018

In addition, among other partner of CIS the trade-relations with Russia had more than 70% in the total volume of trade with CIS countries (table 2). In table 2 the dataset of trade with CIS countries was presented.

Table 2 The dynamic of trade between Ukraine and CIS countries

Year	**2010**		**2011**		**2012**		**2013**	
Countries	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**	**Export**	**Import**
TOTAL	50744291,2	60351954,4	67594103	81040530,9	67779842,2	83135362	62305927,3	75834614,1
CIS	18482943,2	26607200,1	25835779	37080132,3	24911253,3	34317904,3	21672111,1	27741527,4
Azerbaijan	606510,9	948581	698285,7	641810,3	757260,5	76222,4	858863,1	74860,6
Belorussia	1868232,8	2563652,2	1877090	4204461,8	2227506,7	5055456,7	1940239,1	3586639,4
Armenia	199609,1	17093,9	224541,6	17499,2	176709,7	22601,4	178393,9	19409,3
Kazakhstan	1283862,5	753380	1828329	1651380,8	2432711,1	1463582,3	2084101,5	663798
Kyrgyzstan	74241	6171,4	110679,7	7493,3	126362,8	6509,7	132556,9	11779,1
Moldova	706011,1	70257,1	864651,8	125932,4	812385,6	114723,6	895713,5	92398,6
Russia	13241990,6	22133252,7	19588508	29045674,6	17326621,8	27340493,8	14786701	23097569,5
Tajikistan	74189,5	3491,1	59032,8	13025,4	99936,4	7199,9	60152	5045,9
Turkmenistan	207172,1	29591,1	240662,3	729523,9	527086,9	123018,1	393394,3	99397,6
Uzbekistan	221123,5	81729,7	343997,5	643330,4	424671,9	108096,4	341995,7	90629,4
Other countries	32261348	33744754,3	41758324	43960398,6	42868588,9	48817457,7	40633816,2	48093086,7
	2014		**2015**		**2016**		**2017**	
TOTAL	53901689,1	54428716,9	38127149,7	37516443	36361711,2	39249797,2	43264736,0	49607173,9
CIS	14882294	12976129,4	7806147,2	10485576,9	6031505,8	8565389,1	6916460,3	11477924,8
Azerbaijan	591532,8	45308,1	318824,8	30288,1	247979,6	39736,9	354657,8	417316,1
Belorussia	1617084	1329,2	870696,4	2449145,5	903197,5	2777793,6	1142896,9	3205313,2
Armenia	173359,3	19288,4	101561,9	7376,7	88924,5	8216,1	105109,7	10865,0
Kazakhstan	1069434,3	11,1	712744,5	377578,4	400107,6	434290,0	372085,3	317953,7
Kyrgyzstan	102545,8	72085,1	75501,8	5801,7	40430,8	1773,6	34315,4	3001,1
Moldova	743630,1	61859,5	524294	41242,4	481145,4	47623,2	707583,5	106719,5
Russia	9798226,2	12699989,1	4827717,9	7492724,5	3592917,9	5149313,5	3936464,3	7204013,0
Tajikistan	46685,2	3233,2	29982,9	2771,7	25427,9	1245,9	34091,8	676,3
Turkmenistan	431232,6	109,6	170325,7	16318,4	108981,9	34336,1	62142,3	89345,8
Uzbekistan	308563,7	72916,1	174497,3	62329,5	142392,7	71060,2	167113,3	122721,1
Other countries	39019395,1	41452587,5	30321002,5	27030866,1	30330205,4	30684408,1	36348275,7	38129249,1

Sources: State, 2018

The dataset in figure 7 showed that after Russia, Belorussia and Kazakhstan were the largest partners among CIS countries. But as with Russia, the dynamic of trade has the negative tendency.

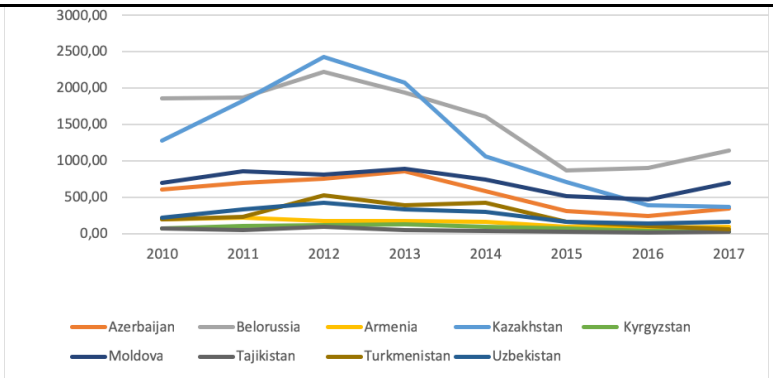

Figure 8 Export between Ukraine and CIS countries (excluding Russia)
Sources: State, 2018

Also, should underlined, that as export as import started to decrease after 2014 (figure 8 and 9). But in 2014 the trade relations started to close with Belorussia. Thus, in 2014 import to Belorussia from Ukraine had the lowest level – 1,32 bln USD. So, after 2015, the situation with Belorussia has started to recover.

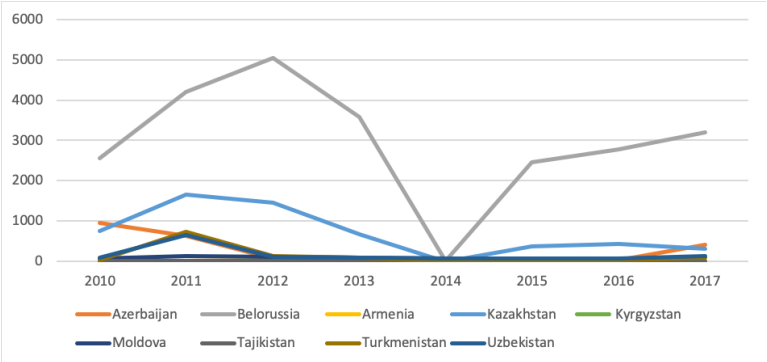

Figure 9 Import between Ukraine and CIS countries (excluding Russia)
Sources: State, 2018

From the other side, as indicated in the previous chapter Ukraine the positive dynamic on trade relation with EU countries.

According to the official information at official web site of Carnegie Endowment for International Peace, in the four years since the 2014 Revolution of Dignity in Ukraine, progress on reforms has been mixed. The reform process is now likely to be disrupted by the protracted political season preceding the 2019 presidential and parliamentary elections in which Ukraine's voters will get their first chance to pass verdict on the domestic changes that have shaken their country since 2014.

Over the past four years, on President Petro Poroshenko's watch, Ukraine has achieved macroeconomic stabilization and reformed or established several important institutions, such as the police, the Supreme Court, and new anticorruption agencies. Yet major structural problems remain. The country still suffers from the effects of oligarchic monopolies, an overregulated economy, a challenging business environment, and weak rule of law.

Large numbers of ordinary Ukrainians are less than enthusiastic about what the politicians have done since 2014, believing they have made major sacrifices, while the elites have been insulated from the economic downturn and carry on with business as usual. After a catastrophic crash, economic recovery has been steady but slow. Even though consumption has returned to pre-crisis levels, many feel angry. Frustration is connected to the growth of prices and the behaviour of authorities. There are disturbing estimates of mass emigration from the country, suggesting that hundreds of thousands of Ukrainians are voting with their feet.

The country also faces a dramatic challenge between the demands of state and nationbuilding. Those Ukrainians who believe that the former should be prioritized have embraced the fight against corruption as their key focus. Those who believe that the latter is the most important task insist above all on strengthening Ukrainian national identity and reducing Russia's influence. The two camps coexist uneasily, but while the wave of patriotism that swept the country after Russia's aggression has made Ukraine more resilient, it has also resulted in challenges to free speech and state-sanctioned violence.

Poroshenko's challenge is to find a message to re-enthuse disillusioned voters, when his record in office evokes disappointment. His administration has pushed through important structural reforms, of education, healthcare, and public administration, and has begun a comprehensive decentralization program that delivers localized public services across the country. The latter has brought clear political dividends, in the form of serious hikes in support for local governments and mayors.

Even though poverty has fallen, Poroshenko's popularity has plunged—in part because he has been unwilling to put his business interests aside and has thus created at least the impression of a major conflict of interests in the nation's highest office. The president is also criticized for his tendency to micromanage and for placing loyalists throughout the government even at the expense of competence, as well as for undermining those institutions that are intended to check and balance his authority.

The reform process is likely to continue despite Ukraine's somewhat tarnished image in the West, and at its own pace. Decentralization and reform of public administration and the energy sector will probably advance, and a new law will pave the way for a smoother privatization process.

But as the 2019 elections approach, domestic political fights will inevitably overshadow all these measures. A key question for the next twelve months is whether the rival factions within the political elite can compete peacefully with one other and avoid destabilizing the country again. Against this background, Ukraine's Western partners will ponder how far they can push the government to continue the reforms that they believe are essential for the country's long-term prosperity and that will sustain their support.

Ukraine's reform agenda is also held hostage by Poroshenko's desire to be re-elected for a second term. His priorities are at odds with those of Ukraine's principal Western partners – the IMF and the EU. Poroshenko's agenda is to secure Western assistance for the Ukrainian military, mobilize patriotic constituencies, and deliver more socioeconomic benefits to the public. The West insists on Poroshenko's government establishing an independent anticorruption court, raising the gas price (again), and maintaining austerity in its fiscal policy.

Poroshenko has been gradually consolidating his power, but he has lost public support. In November 2017 the parliament rolled back a draft law that had been intended to de-politicize the civil service and returned to the president the power to appoint regional governors. The law on the reintegration of Donbas into Ukraine gave the president the authority to deploy the army in the east without parliament's consent.

The president has also overseen new appointments to the Constitutional Court and the Central Election Commission, and some observers have seen these as an attempt to preserve his influence over key institutions. As one of its first acts, the new-look Constitutional Court decided that the controversial language law of 2012, which gave the Russian language a "regional status," was unconstitutional due to errors in the way it was adopted. This judgment has paved the way for a new language law perhaps before the elections, strengthening the status of the Ukrainian language and appealing to the nation-building constituency.

In a context of low public support, high political uncertainty, and widely available small arms, the authorities are nervous about even small protests. This may explain the aggressive suppression of the anti-government campaign headed by former Georgian president Mikheil Saakashvili. On February 12, Saakashvili was detained and deported to Poland in a process that was almost certainly illegal. The tent camp he had set up – in imitation of the Euromaidan – was later forcibly shut down.

Poroshenko needs to recover a large measure of public support and trust if he is to be reelected. Former prime minister and social populist Yulia Tymoshenko was the presidential administration's preferred option to be the main opposition challenge, given her checkered past. The number of undecided voters – up to 40% of the population – potentially leaves the door open for new faces, rebranding, wild cards, and unexpected alliances. As the entry costs to Ukrainian politics remain high, a new party or candidate is unlikely to be successful at the polls without financial support from oligarchic patrons.

However, Poroshenko and his remaining allies may be looking for other options, as the latest polls show the opposition well ahead of the ruling parties. As Tymoshenko is now leading with 25%, while Poroshenko trails behind with only 9.8% support, the leadership may consider constitutional changes that would reduce presidential powers and again give Ukraine a parliamentary system. If this public opinion trend continues, the long-negotiated common election approach of the ruling coalition – the Poroshenko Bloc and the Popular Front – won't be feasible, and even the Poroshenko Bloc may start to erode.

Since 2014, Ukraine has launched and enacted more reforms than during the preceding twenty-five years. The government has established brand new institutions such as the patrol police and reformed old ones like the Supreme Court. The military has undergone a substantial overhaul, public procurement is more transparent, decentralization and public administration reforms have empowered new actors. The business environment has improved, albeit starting from a very low base. The country has its first-ever energy efficiency program, and reform programs are under way in the healthcare and education systems. The reforms have helped deliver a visa-free regime with the EU, which means that Ukraine now has the highest degree of travel freedom of the former Soviet republics, excluding the EU member Baltic states.

There is still a long way to go. Many of the reforms look good on paper while implementation, budgetary support, and informational campaigns are lacking. Moreover, there is much foot-dragging and pushback in areas where elite interests are at stake – mainly in the area of anticorruption and judiciary reforms. In fairness, public expectations may have been too high. The post-Euromaidan reform process has drawn attention to problems that had lain untouched for twenty-five years. For example, while there have been real efforts to tackle corruption, public perceptions of the extent of corruption have risen since 2014, thanks to greater media scrutiny of the issue.

Corruption – some call it simply "state capture" – overrides all other issues. Under intense Western pressure, the Poroshenko government has made progress in reducing petty corruption and increasing transparency. It has created Pro-Zorro, the online procurement system and a new system of electronic asset declarations by government officials. It has also established new anticorruption agencies such as the National Anticorruption Bureau (NABU) and the Specialized Anticorruption Prosecutor's Office.

But progress to advance the anticorruption agenda further has been uneven, at best. NABU has opened hundreds of criminal cases, including against the head of the State Fiscal Service, Roman Nasirov. However, very few cases have resulted in jail sentences thus far. Parliamentarians and government officials have declared their assets but evaded questioning on how they were acquired, with Poroshenko himself resisting calls to repatriate his offshore assets. Most notably, the government has required civic activists to report on their income on a par with civil servants. While not prohibited by law, this appears to be an act of revenge against the government's civil society critics.

At the same time, progress on judicial reform, dubbed by Poroshenko as "the mother of all reforms," has been painful. One reason for this is that, as Vox Ukraine noted, the government decided to first adopt the legal framework for strengthening the judiciary's independence, and only then moving to replace judges. This was unpopular with the public because some judges with tarnished reputations have been retained.

The court system has been restructured, and a new Council of Judges – a self-governing body to make all decisions regarding recruitment, promotion, and punishment of judges – was established in March 2018. However, one of its first actions was to issue a report criticizing the courts' lack of independence. Judges are still subjected to heavy political pressure, especially in national security cases.

Many of the abuses of the justice system originate in the General Prosecutor's Office (GPO). Despite losing some of the punitive and oversight functions it had retained from the Soviet era, the GPO remains a powerful instrument in the hands of the presidential administration. Under General Prosecutor Yuri Lutsenko, just as under his predecessor Viktor Shokin, the GPO has failed to prosecute the country's previous leaders for embezzlement even though some of the stolen money was returned to state coffers. Instead, critics charge, the GPO's priorities are to demonstrate its loyalty to the president and to de facto preserve its previously extensive powers.

Anticorruption and judicial reforms intersect when it comes to the crucial issue of setting up a specialized anticorruption court, a move recommended by the IMF in particular to break the deadlock in prosecuting corruption cases but resisted thus far by the president. The Ukrainian elites' willingness to cede power to a special court will be the crucial indicator of their commitment to fighting corruption and achieving real progress in this area.

Over the past four years, the main drivers of the reform have been Ukraine's Western partners and its active nongovernmental sector, putting pressure on the government in what has been called a "sandwich" maneuver. Most of the political class has taken a mainly transactional approach, welcoming some initiatives and resisting others while the wider public has been disengaged.

Ukraine's two main international donors, the European Union and the International Monetary Fund, can take credit for having ensured a much-needed macroeconomic stabilization after the collapse of the economy in 2014. They have used their financial leverage to promote reforms. The IMF has provided $8.6 billion of the $17.5 billion promised in loans since 2015 –although the program is presently on hold due to the government's failure to establish the anticorruption court and implement another gas price hike. Of the EU's promised macrofinancial assistance of 3.4 billion euros, 600 million euros have still not been delivered to Ukraine due to unfulfilled commitments, mainly in the field of anticorruption.

Fierce resistance to reforms comes from the veterans of the old oligarchic system, which managed to survive as the country was distracted by the traumas of the Euromaidan revolution and Russian military intervention. Four years after the uprising, competition among so-called financial-political groups remains a central feature of Ukrainian political and economic life. These groups are much better organized and resourced than civil society actors. Although Russian gas, formerly the leading source of corruption and rents, has been eliminated, these powerful economic actors now focus their efforts on getting control of other parts of the energy and agriculture sectors and the vastly increased military budget. Many of them still wield influence in Ukraine's divided parliament, where the government has to rely on a fragile coalition to govern and which has been slow to implement a program of reform legislation.

The Ukrainian public has not been enthused by much of the new reform agenda and remains alienated from the entire political class. All opinion polls consistently reveal the public's low confidence in the ruling elite, including the Poroshenko administration, opposition parties, and their leaders. The church, the army, and civic volunteer groups enjoy much greater public confidence. Opinion polls show that social issues – in particular price increases – top the list of public concerns. With the 2019 elections looming, the issue of the social impact of the reforms is rising up the political agenda and is the major reason why Yulia Tymoshenko is ahead in opinion polls.

The success or failure of Ukraine's reforms will mainly be determined by whether or not they deliver

economic benefits to the public. Currently, the country's economic performance is disappointing. The economy grew by 2.5% in 2017 and could have been higher barring the government-supported trade blockade imposed in March 2017 on the Russian-backed eastern regions of the country, which resulted in a 4 percent decline in Ukraine's 2017 industrial production.

The ongoing trade war with Russia has also had a major negative impact. Ukrainian exports to the EU have reached pre-crisis levels and now account for 35% of Ukraine's total exports, but they cannot offset the loss of trade with Russia. The Ukrainian hryvnia, at 26 to the dollar, is now worth only one-third of what it was before the Euromaidan revolution. Inflation, the biggest concern of ordinary citizens and a major reason why the opposition attracts support, remains stubbornly high at almost 14 percent.

The biggest constraint on growth is low investment. Gross capital investment amounts to 15 percent of GDP, well short of the 25 percent necessary (but not forecasted) for Ukraine to reach annual growth rates of 6 or 7 percent. Foreign direct investment, worth $2.3 billion in 2017 (after $3.3 billion in 2016 and $3 billion in 2015), was too small to produce an economic surge. Domestic investment of $16 billion was the main driver of growth. Investors' confidence has grown slightly according to a survey by the European Business Association, but corruption, weak rule of law, and the war in the east remain formidable deterrents.

Ukraine's finances look precarious, considering that it will have to pay back loansamounting to some $12 billion over the next three years. Moreover, even though the Stockholm Arbitration Court ruled in favor of Naftogaz in the dispute with Russia's Gazprom, the government faces other claims. A London court is considering Russia's claim of $3 billion, which it had loaned to the government of former president Viktor Yanukovych. Prominent oligarch, Ihor Kolomoyskyi, a former co-owner of Privatbank, is also suing the government for damages amounting to $4.7 billion.

In these challenging economic circumstances, it is no surprise that Poroshenko has declared overcoming poverty and increasing living standards as his administration's key goals for 2018. Government policies – such as raising the minimum wage – as well as the growing economy and demand for labor have led to wage increases of 18.9% year-over-year in real terms. Average wages reached 8,777 Ukrainian hryvnia (about $334), compared to 3,619 hryvnia in 2013. Yet, in the current low-growth environment, these measures risk pushing the currency lower and inflation higher.

Poroshenko and his team are determined to secure his reelection in 2019. However, success is not guaranteed, even if the state apparatus relies on the tried-and-true methods of gaining support through murky media and "administrative resource" – the process whereby local officials guarantee the votes of government workers and rural voters. Ukraine's capacity for democratic pluralism remains strong and the appeal of a populist challenger such as Yulia Tymoshenko will remain high. Ukraine's Western partners will need to be vigilant to all this, engage with the entire political spectrum and not merely insist on changes to the electoral law, but free and fair elections.

In the contest between Ukraine's nation- and state-building agendas, the latter is likely to suffer as elections approach. Poroshenko and other politicians will play the patriotic card in a bid for the estimated 40% of voters who regard themselves as "Ukrainian patriots."

Against this background, reforms will continue at a slower pace. Judicial and public administration reforms, for example, are likely to suffer as the president increasingly favors loyalty in his subordinates above competence. Ukraine's Western partners will continue to push for more reforms in the energy sector, where the government is feeling pressure due to Russia's plans for a Nord Stream II pipeline, designed to provide an alternative route for its gas exports to Europe that will reduce Ukraine's leverage vis-à-vis Russia. Efforts to improve energy efficiency throughout the Ukrainian economy are already under way.

Land reform is an extremely sensitive political issue, but if handled well the government can deliver impressive results. After twenty years of putting it on hold, the government could start, with the support of Western institutions, by investing in a proper land registry to clear the way for legal and transparent land sales.

Last but not least, Ukraine's decentralization reform, which has enhanced local budgets and brought the most benefits to local regions in the form of improved and less corrupt administrative and infrastructure services, will continue.

The biggest unanswered question of the next few years is whether there can be substantial economic improvement. Ukraine's Western partners and the general public can agree on the urgent need to increase long-term investment. The EU has devised a $1-billion-euro investment plan for Ukraine. Welcome as it is, it looks less ambitious than Lithuania's idea of a $5-billion Marshall Plan for Ukraine, and much of it is set to come from unused funds at the European Bank for Reconstruction and Development and the European Investment Bank rather than any new funds.

In the medium term, the financial situation will remain fragile, given monetary reserves of $18.5 billion and outstanding Western loans of around $12.5 billion. In practical terms, that means the government must steer a path between the demands of Western financial institutions – the IMF in particular – and a mass of voters who want to see improvements in their socioeconomic situation.

The IMF and the EU have a lot of leverage. But Western institutions must tread carefully so as not to be seen as interfering directly in Ukrainian domestic affairs. They need to tailor their policies to the concerns of the wider public. A former Ukrainian negotiator who worked on the Association Agreement with the EU summed up the mood in Kyiv, saying that the EU is overemphasizing the "liberal economic agenda – free trade, removal of barriers, regulatory approximation" – while not paying enough attention to inequality and poverty. Ukrainians are aware that Europe has both a liberal order and a strong social welfare system and believe that the latter is being neglected in their case. In other words, the West will be seen as a political factor in the upcoming election. Unfairly or not, the public perceives it as being responsible for measures such as the doubling of the gas price, which is now worth one-third of an average Ukrainian monthly salary.

Ukraine's Western friends have to be skilful jugglers in the run up to 2019. They need to promote continued reform and do what they can to hear the public's concerns about low living standards, all the while engaging with the whole (Balazs Jarabik and Thomas de Waal, 2018).

The abovementioned material was prepared based on the Balazs Jarabik and Thomas de Waal (2018).

Question for self-checking.

1. Describe the main opportunities and challenges of DCFTA.
2. Explain the tendency of economic relations with Russia and CIS.
3. Explain the features of reforms in Ukraine.

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