

Why Ukraine?

Summary

Area: 603,628 km²

Population: 44.8 million (World Bank, 2017)

Urban population: 69.9%

Population density: 77.7 people per km²

Population growth rate (change): -0.2%

Capital city: Kyiv

Official language: Ukrainian

Currency: Ukrainian Hryvnia (UAH)

Nominal GDP: US \$112.9 billion (World Bank, 2017)

Real annual GDP growth: 2.5% (FY 2017)

GDP per capita: US \$2,639 (World Bank, 2017)

Annual inflation rate: 14.4%

Unemployment rate: 9.4%

General government gross debt: 72.3% of GDP (2017)

Fiscal balance: -2.4% of GDP

Current account balance: US -\$3.8 billion/-3.5% of GDP (2017)

Exports of goods to UK: \$480 million (State Statistics of Ukraine)

Exports of services to UK: \$573 million (State Statistics of Ukraine)

Imports of goods from UK: \$799 million (State Statistics of Ukraine)

Imports of services from UK: \$499 million (State Statistics of Ukraine)

[Source – FCO Economics Unit, BBC, State Statistics of Ukraine, Ukrainian Embassy London, World Bank
(<http://pubdocs.worldbank.org/en/684631523347829626/Ukraine-Economic-Update-April-2018-Eng.pdf>)]

Geography

With an area of 603,628 km² and a coastline of almost 2,800 km on the Black Sea to the south, the eastern European country of Ukraine is the largest country wholly in Europe, and lies between latitudes 44° and 53° N, and longitudes 22° and 41° E. It shares a border with Belarus, Hungary, Moldova, Poland, Romania, Russia and Slovakia, strategically situated between the EU, Russia and the Caucasus. The Carpathian Mountains are found in the extreme west, and a smaller mountain range is in the Crimean Peninsula in the south. However, most of Ukraine consists of fertile plains (steppes) and plateaux, with major rivers flowing south into the Black Sea. These plains are some of Europe's best agricultural land. Indeed, Ukraine has one-third of the world's richest soil, the *chernozem* known as the "black earth". It is estimated that Ukraine, if fully cultivated to Western standards, could feed a fifth of the world's population, increasing its agricultural production by over 500%, to become the world's leading grain exporter and a leading producer of many other agricultural products.

Ukraine has a temperate continental climate with a Mediterranean climate on the Black Sea coast. Precipitation is disproportionately distributed, highest in the west and north, and less in the east and southeast. Winters vary from cool along the Black Sea to cold further inland; summers are warm across most of the country, and hot in the south.



Overview

Ukraine has significant economic potential as a result of:

- strategic location connecting Europe, Russia and Asian markets
- well-educated labour force
- large domestic market
- access to a variety of resources, including some of Europe's best agricultural land, significant coal and some oil and gas reserves

It is going through a difficult political transition following Russia's illegal annexation of the Crimean Peninsula and the 'Operation of the United Forces' in Eastern Ukraine.

However, despite the difficult political and economic climate, Ukraine continues to offer opportunities in a broad range of sectors. Many of these involve co-operation with Ukrainian companies and authorities, and require Western financial investment.

Contact a Department for International Trade (DIT) export adviser at: <https://www.great.gov.uk/contact/triage/location/> for a free consultation if you are interested in exporting to Ukraine.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies, see: <https://www.gov.uk/government/organisations/uk-export-finance>.

[Source – DIT/ UKEF/gov.uk]

Political situation

Prominent Ukrainian businessman and politician, Petro Poroshenko was elected President of Ukraine in May 2014. His election followed the ouster of former President Yanukovich as a result of a violent crackdown on the “Euro-Maidan” demonstrations of 2013/14. These demonstrations had been triggered by Yanukovich’s decision not to sign the EU Association Agreement in November 2013, but soon broadened their focus to include challenging corruption and lack of transparency.

In October 2014, pro-EU political forces formed a ruling coalition, declaring their commitment to conduct comprehensive political and economic reforms. Parliament voted to support a new government headed by Prime Minister Arseniy Yatsenyuk in early December 2014. In April 2016, Yatsenyuk was replaced as Prime Minister by (former Speaker) Volodymyr Groysman; several Cabinet Ministers also changed at this time. The majority coalition in Ukraine’s Parliament (Rada) continues to include the Bloc Petro Poroshenko and Yatsenyuk’s People’s Front but other parties that had been part of the coalition in 2014 are now in opposition. The reduced and unstable majority has hampered the government’s ability to pass new legislation.

Ukrainian and international electoral watchdogs, including OSCE/ODIHR observers, praised Ukraine’s local elections held on 25th October 2015 for their progress towards free and fair political competition. According to the OSCE conclusions, the 2015 local elections were competitive and well organised, and showed respect for the democratic process, although certain areas for improvement to enhance public confidence were also identified.

Combating corruption, reforming Ukraine’s judiciary as well as decentralisation, deregulation and de-oligarchisation remain among the key priorities for Ukraine’s Government. Ukraine’s civil society plays an active role in advocating for these reforms and others, including electoral reform. The international donor community is playing an important part in supporting the reform process. The UK has a significant bilateral assistance programme focused on the areas of good-governance, humanitarian, defence support and energy. The British Embassy Kyiv is also working closely with the EU, World Bank, EBRD and other IFIs and bilateral donors active in Ukraine.

On 1st January 2016, the Deep and Comprehensive Free Trade Area (DCFTA) – as part of the Association Agreement between the EU and Ukraine signed in June 2014 – was provisionally applied. (The EU had unilaterally applied year one of the DCFTA, the “Autonomous Trade Measures”, in 2015.) The rest of the Association Agreement had already been in force since November 2014. The provisional application of the DCFTA is a significant milestone in the EU-Ukraine relationship, offering new economic benefits to both sides. Ukrainian businesses receive stable and predictable preferential access to the largest market in the world with 500 million customers, while EU businesses benefit from easier access to the Ukrainian market and build new relationships with Ukrainian partners. This is also to the benefit of Ukrainian citizens, driving up the quality of domestic products and providing better access to high quality imports. Increased competition and the lowering of import tariffs should lead to lower prices.

Through its ambitious goals of approximation to EU legislation in areas such as competition, government procurement, and protection of Intellectual Property Rights, the agreement will contribute to the modernisation and diversification of the Ukrainian economy and will create additional incentives for reform, notably in the fight against corruption. The DCFTA thus offers an opportunity to Ukraine to improve its business climate, attract foreign investment, and further integrate with the world economy. The DCFTA is foreseen to be implemented over several years, allowing gradual alignment of legislation and tariffs and time for all affected stakeholders to adjust.

Illegal annexation of Crimea

Russia illegally annexed Crimea in March 2014, following a ‘referendum’ on the peninsula which violated Ukrainian law. Since then there has been a severe deterioration of the human rights situation, access issues and a serious economic decline.

The UK Government’s position on Crimea:

- Russia’s annexation of Crimea in March 2014 is illegal and illegitimate. The UK along with the rest of the EU and the G7 does not, and will not, recognise it. It is a violation of a number of Russia’s international commitments, including under the UN Charter, the OSCE Helsinki Final Act and the 1997 Partition Treaty on the Status and Conditions of the Black Sea Fleet with Ukraine.
- The EU has imposed sanctions on individuals and entities in relation to Russia’s illegal annexation of Crimea.
See: http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm.
- Both the G7 and EU have affirmed their condemnation, and non-recognition, of Russia’s illegal annexation of Crimea and the UK Government is implementing a

strict policy of non-recognition with respect to Crimea/Sevastopol, in line with UN General Assembly Resolution 68/262.

- The EU Foreign Affairs Council of 23rd June 2014 decided to prohibit the import into the European Union of goods originating from Crimea and Sevastopol with the exception of those having been granted a certificate of origin by the Government of Ukraine or to provide, directly or indirectly, financing or financial assistance, as well as insurance and reinsurance, related to the import of such goods.
- The 16th July 2014 European Council agreed to impose additional measures relating to the illegal annexation of Crimea, in particular on restricting investments in Crimea, and called on the international financial institutions to refrain from financing any projects that explicitly or implicitly recognise the illegal annexation of Crimea and Sevastopol.
- EU members have agreed to continue to monitor the situation and to consider further trade measures as necessary.
- UK businesses should be mindful of these impacts for commercial operations and of the increased commercial risks created by this situation.
- The UK Government will continue to offer UK companies advice where it can but is not in a position to offer advice on the legal implications of operating in Crimea. Commercial decisions are ultimately for companies to make themselves on the basis of commercial risk, bearing in mind also the increased risk that high-profile business engagement might be exploited by Russia for political reasons.

Check with the DIT Ukraine team in Kyiv at:
<https://www.gov.uk/world/organisations/department-for-international-trade-ukraine#contact-us> for up-to-date information and advice on the business risks in Crimea.

Economic overview

Ukraine has a broad (if ageing) industrial base which is strong in ferrous metals and chemicals. This includes much of the former Union of Soviet Socialist Republic's (USSR) space and rocket industry and a well-developed defence and security sector.

Ukraine is a major producer of agricultural products such as:

- grain
- sunflower seeds and oil sugar beet
- corn

The EU accounts for about 40% of Ukraine's trade, while CIS countries account for about 20%. Ukraine has a major ferrous metal industry, producing cast iron, steel and steel pipe, and its chemical industry produces coke, mineral fertilisers, and sulphuric acid. Ukraine has a broad industrial base, including much of the former USSR's space and rocket industry.

[Source – EU accounts 2017, Ukrainian Embassy London]

Manufactured goods include:

- aeroplanes
- turbines
- metallurgical equipment
- diesel locomotives
- tractors

Ukraine is a member of the European Bank for Reconstruction and Development (EBRD) and joined the World Trade Organization (WTO) in May 2008.

Ukraine is also the third-largest International Finance Corporation (IFC) exposure in the region after Turkey and Russia, and is the 12th largest IFC exposure globally, accounting for about 10% of IFC's total outstanding portfolio.

Ukraine's GDP was US \$112.9 billion in 2017, and growth is projected to strengthen to 3.3% for the year, to 3.5% in 2019 and rise above 4% in 2020-21 after election-related uncertainties abate, according to the "World Bank Group – Ukraine Partnership: Country Program Snapshot" dated October 2018. See: <http://pubdocs.worldbank.org/en/927541538997812113/Ukraine-Snapshot-Fall2018.pdf>.

[Source – DIT/gov.uk/World Bank]

UK and Ukraine trade

UK exports to Ukraine in 2017 amounted to \$1.3 billion. *[Source – Ukrainian Embassy London]*

Top goods exports include:

- medicinal and pharmaceutical products

- road vehicles
- textile fibres
- chemical materials and products
- various specialised and industrial machinery

The UK is the fourth largest investor in Ukraine after Cyprus, Netherlands and Russia (as of 2017). There are over 150 well-established UK companies in Ukraine, with many more brands present. Major UK companies in the market include BP, Shell, GSK, AstraZeneca, BAT, Imperial Tobacco, Mott MacDonald, Crown Agents, Next, and Marks & Spencer.

Benefits of Ukraine market for UK businesses

Benefits for UK businesses exporting to Ukraine include:

- large developed consumer market
- £500 million+ market for UK exports
- six cities with a population of at least 1 million
- starting to harmonise with European Union (EU) regulations
- free trade agreement signed with the EU
- strategic location at the crossroads of European, Russian and Asian markets

[Source – DIT/gov.uk]

World rankings

- In Transparency International's 2017 Corruption Perceptions Index (Feb 2018), Ukraine is ranked 130th out of 180 countries (the second-lowest in Europe): https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table
- Ukraine is ranked 71st out of 190 countries in the World Bank's 2019 Ease of Doing Business Index (the UK ranks 9th): <http://www.doingbusiness.org/en/rankings>
- The World Economic Forum's Global Competitiveness Report 2018 ranks Ukraine 83rd out of 140 (the UK is ranked 8th): <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=UKR>

- Ukraine is ranked 150th out of 180 countries (“Mostly Unfree”) in the Heritage Foundation’s 2018 Index of Economic Freedom (the UK ranks 8th): <https://www.heritage.org/index/ranking>

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[Source – DIT/UKEF/gov.uk]

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