2.3. HAVE DCFTAS IN GEORGIA, MOLDOVA AND UKRAINE HAD AN IMPACT ON TRADE AND FDI?

by Peter Havlik

In 2014, the EU signed DCFTAs with Georgia, Moldova and Ukraine. So far, the results in terms of trade and FDI flows have been mixed at best.

2.3.1. Introduction

In recent years, the European Union has concluded association agreements (AAs) with Georgia, Moldova and Ukraine. Deep and comprehensive free trade areas (DCFTAs) are part of those AAs. The AA/DCFTAs were signed in 2014 and have been fully in force since 2016. A DCFTA covers:[12]

› Trade-related aspects: conventional free trade area aspects focusing on an (asymmetric) reduction in tariff duties and rules of origin;

› 'Deep' aspects: gradual reduction in non-tariff barriers through the adoption of EU standards, including food safety and sanitary and phytosanitary (SPS) measures, technical standards, national treatment, public procurement, services liberalisation and customs administration;

› 'Comprehensive' aspects: wide scope of approximation to EU *acquis* regarding national treatment, customs and trade facilitation, trade in services, intellectual property, e-commerce, energy market, public procurement, anti-trust and competition, etc.

The implementation of an AA/DCFTA requires from signatory countries an approximation to the EU *acquis communautaire* (both current and future). Some transitory arrangements (e.g. a special import regime for used clothing and passenger cars for Ukraine) were agreed during negotiations, and the EU provided a temporary (during 2014–2015) autonomous concession of preferential access to the EU market. Nevertheless, some obstacles to trade remain – such as tariff rate quotas, technical barriers to trade and SPS regulations. On the whole, the implementation of AA/DCFTAs is rather challenging. The costs and benefits are unevenly distributed; and the latter depend on successful implementation.[13]

This section analyses the key foreign trade and foreign direct investment (FDI) developments in Georgia, Moldova and Ukraine during the first three years of DCFTA implementation – two areas where the economic impacts can already be evaluated.

2.3.2. Trade reorientation

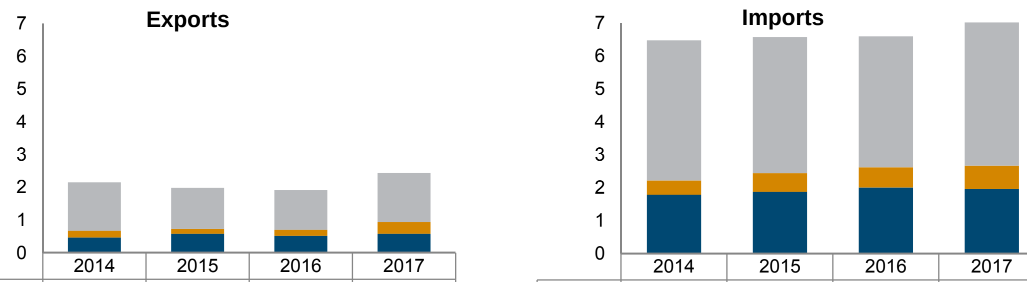
Georgia: Exports to the EU fell by 10% in 2014–2016, yet were up 16% in 2017 (all in nominal EUR terms). Imports from the EU were down 7% in 2014–2016 and remained flat in 2017. Georgia suffers

[12] For a detailed description, see the handbooks recently published by CEPS: https://www.ceps.eu/blog-posts/four-books-progress-towards-good-governance-eastern-europe

[13] For a comprehensive analysis, see A. Adarov, and P. Havlik (2016), 'Benefits and costs of DCFTA: Evaluation of the impact on Georgia, Moldova and Ukraine', wiiw, Vienna; and (2017), 'Challenges of DCFTAs: How can Georgia, Moldova and Ukraine succeed?', Policy Brief, wiiw and Bertelsmann Stiftung, Vienna.

from persistent trade deficits: EUR 4.5 billion in 2017 (of which EUR 1.5 billion was with the EU). The EU's share of exports increased by 2 percentage points during 2014–2017 (to 24%); Russia's share grew by 5 percentage points in the same period (see Figure 21).

Figure 21 / Recent foreign trade developments in Georgia (EUR billion)



Exports

	2014	2015	2016	2017
Other	1.5	1.3	1.2	1.5
Russia	0.2	0.1	0.2	0.4
EU-28	0.5	0.6	0.5	0.6

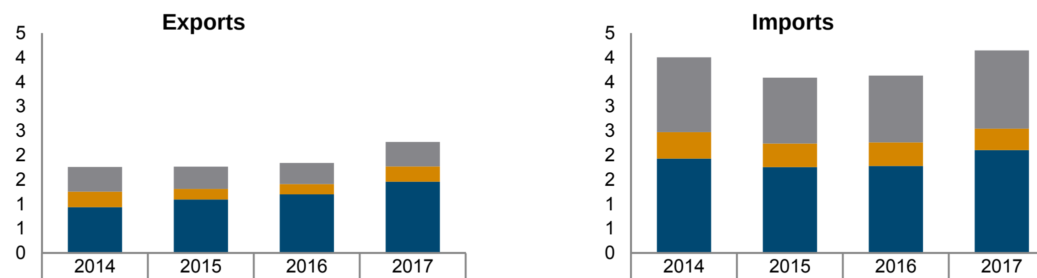
Imports

	2014	2015	2016	2017
Other	4.3	4.1	4.0	4.4
Russia	0.4	0.6	0.6	0.7
EU-28	1.8	1.9	2.0	2.0

Source: National statistical office.

Moldova has had more success than other DCFTA countries in expanding its exports to the EU (up 28% in 2014–2016 and a further 22% in 2017).[14] Imports from the EU declined by 8% in 2014–2016, yet rose by 18% in 2017. Moldova suffers from widening trade deficits as well: the trade deficit was EUR 1.9 billion in 2017 (of which EUR 0.6 billion was with the EU). The EU's share of exports increased 10 percentage points between 2014 and 2017 (to 64%); Russia's share dropped 4 percentage points (to 14%) in the same period (Figure 22).

Figure 22 / Recent foreign trade developments in Moldova (EUR billion)



Exports

	2014	2015	2016	2017
Other	0.5	0.5	0.4	0.5
Russia	0.3	0.2	0.2	0.3
EU-28	0.9	1.1	1.2	1.5

Imports

	2014	2015	2016	2017
Other	1.5	1.3	1.4	1.6
Russia	0.5	0.5	0.5	0.4
EU-28	1.9	1.8	1.8	2.1

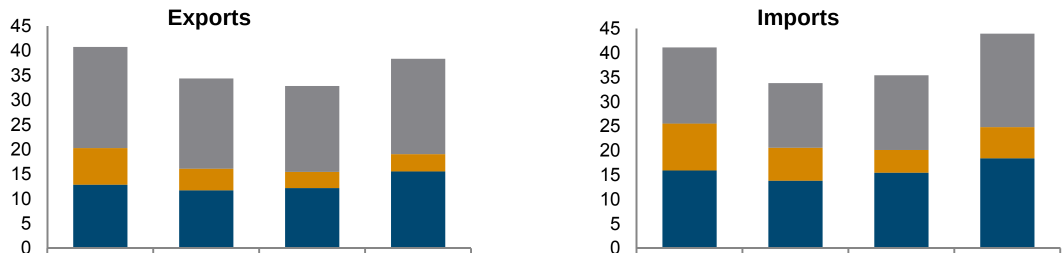
Source: National statistical office; Eurostat (2017).

Ukraine: Exports to the EU dropped 5% in 2014–2016, yet recovered strongly (up 27%) in 2017. Imports from the EU fell 3% in 2014–2016 as well, yet rose 19% in 2017. The trade deficit is also widening: it reached EUR 5.6 billion in 2017 (of which EUR 2.9 billion was with the EU). Exports to the EU increased

[14] In the case of Moldova, part of the remarkable increase in exports to the EU is probably attributable to statistical effects related to the treatment of Transdniestria.

by more than 21% during 2014–2017 (to 41% of the total), while exports to Russia collapsed – dropping more than 50% in the same period.

Figure 23 / Recent foreign trade developments in Ukraine (EUR billion)



Exports

	2014	2015	2016	2017
Other	20.5	18.3	17.4	19.3
Russia	7.4	4.4	3.2	3.5
EU-28	12.9	11.7	12.2	15.5

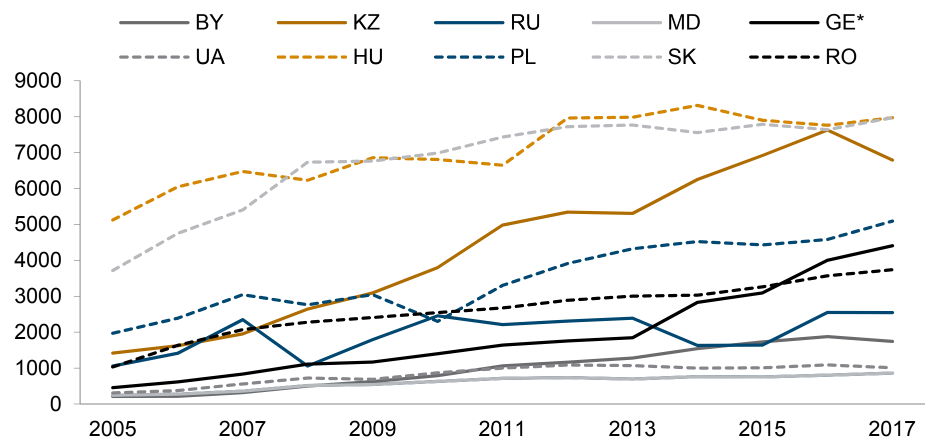
Imports

	2014	2015	2016	2017
Other	15.6	13.2	15.3	19.1
Russia	9.6	6.8	4.7	6.4
EU-28	15.9	13.8	15.5	18.4

Source: wiiw Annual Database.

DCFTA countries' overall trade developments have been rather uneven in recent times. Moldovan exports both overall and to the EU performed better than those of either Georgia or Ukraine (the latter's exports have been affected by the conflict in Donbas: total exports in 2017 were still lower than in 2014). The EU's share of trade increased largely at the expense of Russia, although exports to Russia did recover a bit in 2017. Exports to the EU are highly concentrated on a few, mostly semi-processed commodities such as non-ferrous metals, basic chemicals, crops and basic iron, and are therefore highly vulnerable to fluctuating prices. The top five export commodities accounted for 71% of total Georgian exports to the EU in 2017 (Moldova: 63%; Ukraine: 56%). So far, there has been little evidence of trade restructuring towards manufactured products as a result of the DCFTAs (with the possible exception of textiles (Georgia) and insulated wires and cables (Moldova and Ukraine)). Moreover, the anticipated FDI inflows stimulated by DCFTAs have yet to materialise: FDI stocks in DCFTA countries remain low – much lower than in regional peers from Eastern Europe (except Georgia – see Figure 24).

Figure 24 / Inward FDI stock per capita, EUR



* Excluding data for Abkhazia and South Ossetia; cumulated inflows.
Source: wiiw FDI Database based on Direct Investment statistics of the respective National Banks.
Georgia: UNCTAD, World investment report, wiiw calculations.