



Стопански  
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# Социално- икономическу а н а л и з и

Книга 2/2016 (10)

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## THE INFLUENCE OF THE EU-UKRAINE ASSOCIATION AGREEMENT ON THE TRADE IN SERVICES BETWEEN UKRAINE AND POLAND

**Abstract:** The article analyses external economic relations between Ukraine and Poland in the sphere of trading in goods. New opportunities created by the EU-Ukraine Association Agreement are expected to promote trading in services. However, the results show that after the Agreement was signed, trading in services between Ukraine and the European Union as well as Poland have dropped. The authors suggest that the main reason for this is a complicated political situation in Ukraine. The research outlines the main kinds of services export and import from Ukraine to Poland and determines their importance within overall trading in services between Ukraine and the EU. The Association Agreement has created new opportunities for markets of both Ukrainian and Polish exporters.

**Key words:** services, export, import, Poland, Ukraine, Association Agreement.

### Introduction

The process of international economic integration as an economic phenomenon is an objective result of intensified interdependence of national economies. Its effectiveness is achieved on condition of international cooperation in different fields of social and economic relationships. Thus, the EU-Ukraine Association Agreement has become an important step in the context of Ukraine's integration into The European economy.

Speaking about the EU member states, Poland is one of the biggest trading partners of Ukraine. Starting from the first years of Ukraine's independence, Poland has remained a strategic economic and political partner of Ukraine. Its role is also important since both countries have common border and both countries are located along the eastern border of the European Union. Within other reasons of deep cooperation between Poland and Ukraine are: first a long historical relations; second common ethnic and demographic roots; third close cultural ties; forth common political and strategic interests.

Poland and Ukraine are the biggest trade partners in Central and Eastern Europe. Poland is not only one of Europe's largest economic partners for Ukraine, but also the "advocate" of Ukraine in the EU. Poland initiated the Eastern Partnership and supported our country towards the Association Agreement with the EU.

The signing of the political and later economic part of the Association Agreement between Ukraine and the EU (2014) finally determined the vector of Ukrainian politics. The part of the Association Agreement on Free Trade Area (FTA) is an integral part of the Association Agreement between Ukraine and the European Union (85% of total agreement). The provisions of this part include the liberalization of trade in both goods and services, liberalization of capital movements and to a certain degree liberalization of labor mobility.

Service sector plays an important role as it ensures high-quality economy productiveness and promotes its fast-paced development. One may see that services are present practically everywhere accompanying any kind of household activity. Nowadays, a topical tendency towards intensifying interdependence between industrial manufacturing and service sector forms specific conditions of modern economic system determining both the course of world economic development in general and perspectives of its separate fields<sup>1</sup>.

Many polish scientists have devoted their researches to the problems and prospects of trade in services between Poland and Ukraine: L. Balcerovich, Z. Brzeziński, B. Błaszczuk, H. Borko, M. Drygas, T. Kowalski,

<sup>1</sup> Іксарова, Н. О. Зовнішня торгівля послугами, р. 20.

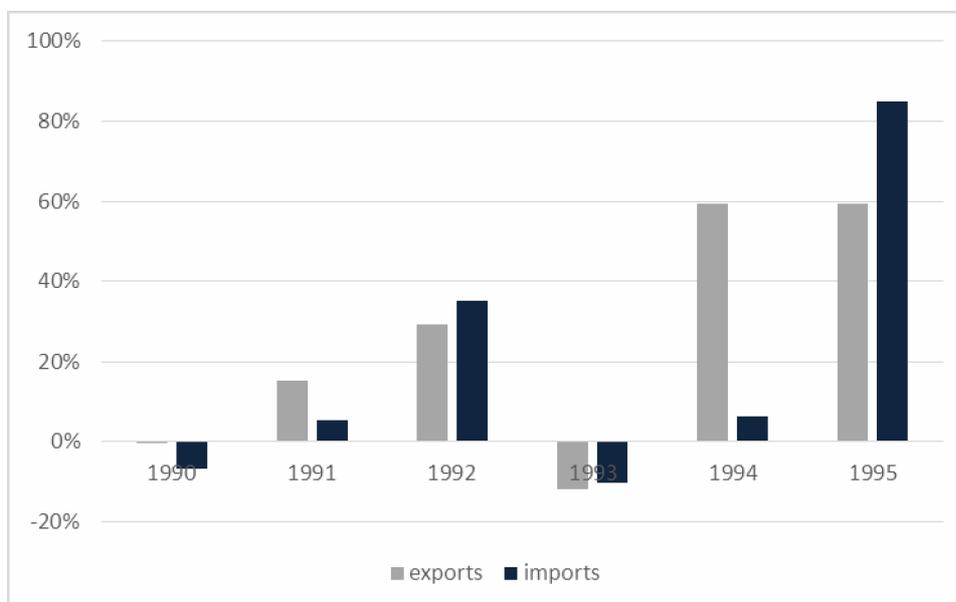
B. Koszel, P. Samecki, W. Jakubiyak and others. Among Ukrainian economists the TheEUropean integration of Ukraine with the THE EU Member-States studied I. Burakovskiy, S. Borotnychek, V.Geyets, A. Halchynskiy, O. Duhina, A. Kobyljanska, K. Kutsenko, V. Sidenko, M. Voznyak etc. However, the influence of external trade services on the economic development in the period of globalization challenges currently requires a thorough research. This issue has become even more important once the EU-Ukraine Association Agreement was signed since it is the competitive service sector which often becomes the main area of work for developing countries while integrating into the international economy.

Taking the aforementioned into consideration, the aim of the article is to research external economic relations between Ukraine and one of its most important trading partners - Poland in the sphere of service trading in the context of the EU-Ukraine Association Agreement.

### Comparing the results of the EU-Poland and EU-Ukraine Association Agreements

Poland and Ukraine are two post-socialist countries which had nearly similar starting positions at the beginning of transformational changes, similar economic structure, similar geopolitical status and polarized political systems. The Europe was facing new geopolitical conditions and both countries were seeking to achieve friendly and mutuallybeneficial relations. It was then that the preconditions for further constructive development of Polish-Ukrainian relations were being built and they enabled the two countries to achieve a high level of mutual understanding and strategic partnership [Error! Reference source not found.].

Poland was the first country in Central and Eastern Europe to introduce radical market-oriented reforms and the first country to demonstrate positive results of implementing a shock therapy at the beginning of 90s in XX century. However, skillful implementation of structural and economic reforms in the industrial sphere promoted its stable development and quick integration into the European Community with the Association Agreement (16<sup>th</sup> December 1991) being one of the first steps to it. Trading part of the Agreement became effective on the 1<sup>st</sup> of March 1992 and included a ten-year transitional period to cancel trading duties between Poland and the EU (most of them were cancelled at the end of 1990s). The results of the economic changes became visible after the Agreement was effective during one year (in 1993 there was a negative tendency in export and import rise). However, during 1994 – 1995 Poland increased its export and import share and reached positive trading balance surplus (fig.1).

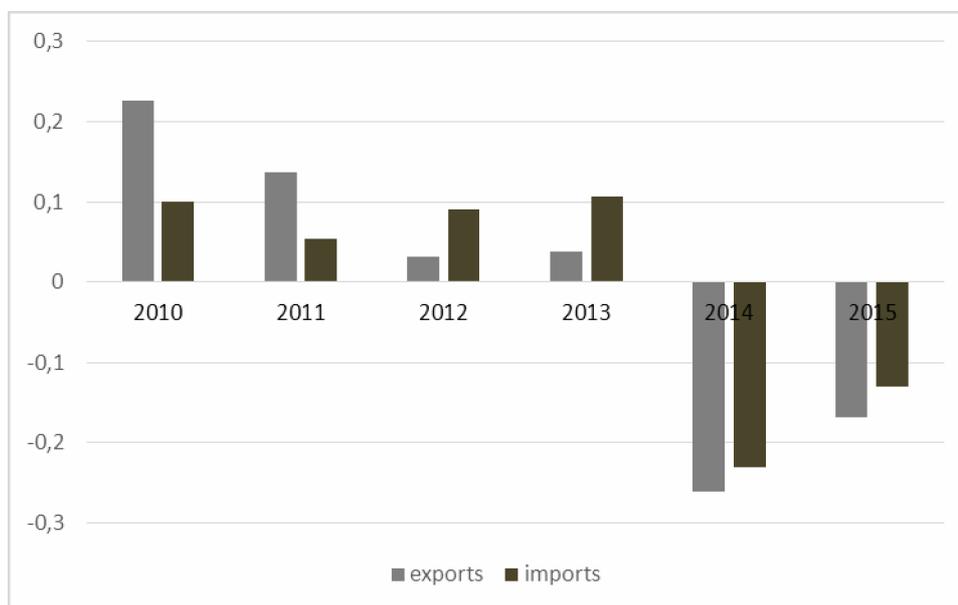


**Figure 1.** Growth rate of exports and imports of services in Poland in 1990 – 1995

Source: authors calculations based on UNCTAD statistics<sup>2</sup>

<sup>2</sup><<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=17648>>

If we compare the effect of the EU-Poland and EU-Ukraine Association Agreements (in respective time periods of signing the Agreement), we will see certain divergences. Namely, after Ukraine signed the Association Agreement, overall services export and import were reducing during 2014 – 2015 (on average by 21,5% and 18% respectively) (fig.2).



**Figure 2.** Growth rate of exports and imports of services in Ukraine in 2010 – 2015

Source: authors calculations based on UNCTAD statistics<sup>3</sup>

Following the general negative tendency, export of services to the European Union and Poland in particular decreased. Thus, in 2015, export of services to the EU Member States decreased by 26,6% if compared with 2014 and to Poland – by 10,3% respectively. Such consequences are primarily connected with difficult economic and political situation in the country and substantial devaluation of Ukrainian currency.

### **Peculiarities of Trading in Services between Ukraine and Poland**

According to the Statistics Department of Ukraine, Poland is one of Ukraine's most important target markets for services in the EU taking the fourth place (accounting for 6,5% of overall services export in 2015) after Great Britain, Germany and Cyprus<sup>4</sup>. If we compare today's export share to Poland, we will see that it has slightly increased (by 1,4%). All in all, services export share from Ukraine to the EU amounted to the 3rd of total services export of Ukraine (30,6% in 2015).

Speaking about the import of Polish goods to Ukraine, its share if compared to 2014 decreased by 1,1% and in 2015 amounted to 3,6% of overall import from the EU<sup>5</sup> (all Polish services export into Ukraine amounted to 3% in 2014<sup>6</sup>). At the same time, import share from the EU to Ukraine is quite substantial (in 2015 it amounted to 53,5% of Ukraine's service import).

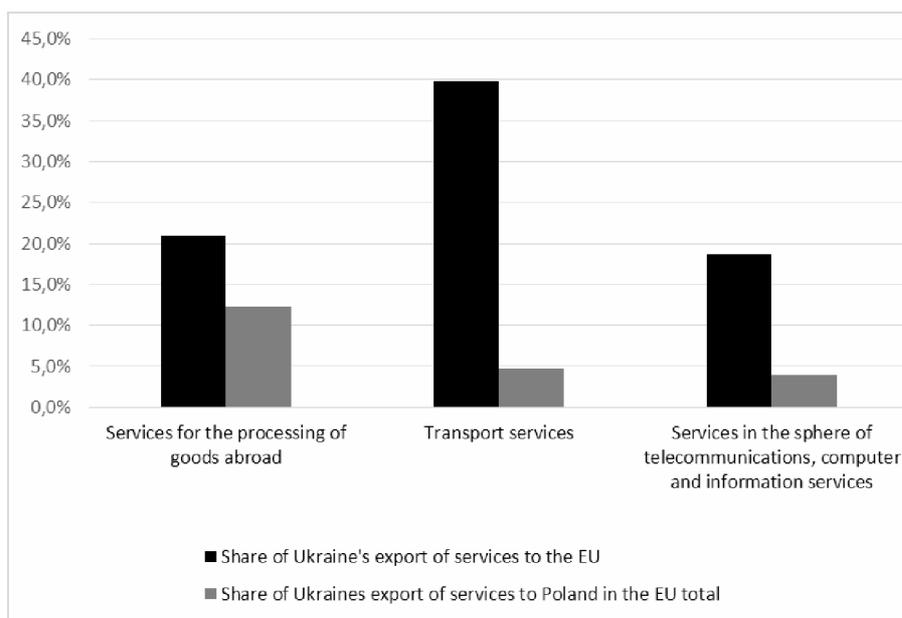
From fig.3, we can see that the main articles of Ukraine's service export to THE EU in 2015 were also main articles of service export from Ukraine to Poland. The same tendency may be traced in import to Ukraine from the EU Member States (fig.4).

<sup>3</sup><<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=17648>>

<sup>4</sup>Cooperation, 2016, p. 106.

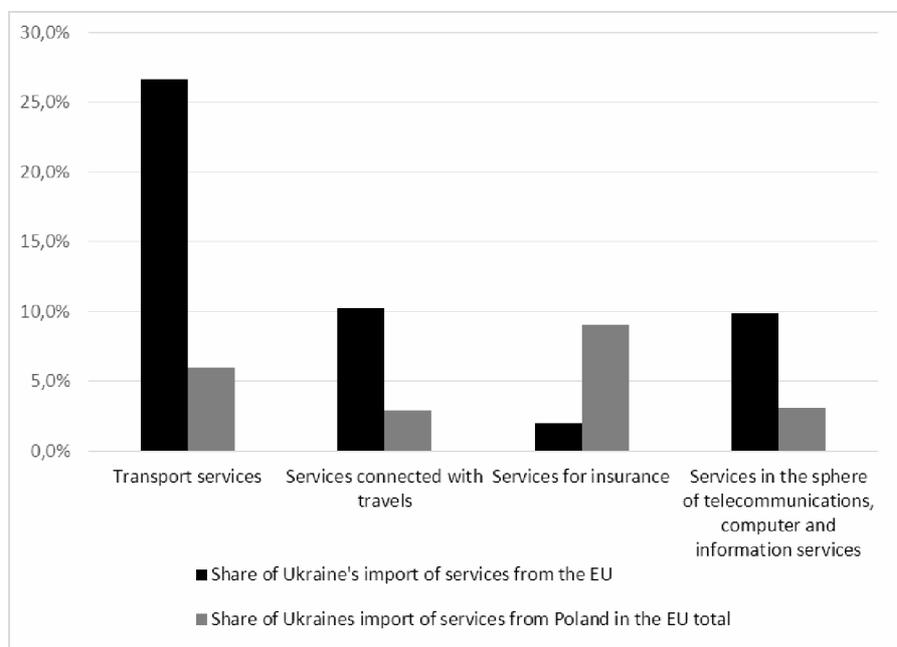
<sup>5</sup>Ibid, p. 107.

<sup>6</sup>Yearbook, 2015, p. 206.



**Figure 3.** The main articles of Ukraine's exports of services to the EU and Poland's share in it  
Source: authors calculations based on data from State Statistics Service of Ukraine<sup>7</sup>

When analyzing the structure of Ukraine's services export to Poland in 2015, we may see that services for the processing of material resources accounted for 41,5% in overall services export share from Ukraine to Poland, particularly services for the processing of goods abroad<sup>8</sup>. Nearly 30% of Ukrainian export to Poland in 2015 was represented by transport services (including air, railway and automobile transport). The third biggest group of services export was represented by services in the sphere of telecommunications) – 12% in 2015 (particularly telecommunication and computer services)<sup>9</sup>. Business services export share from Ukraine to Poland amounted to 8,1% respectively.



**Figure 4.** The structure of Ukraine's imports of services from the EU and Poland's share in it  
Source: authors calculations based on data from State Statistics Service of Ukraine<sup>10</sup>

<sup>7</sup>Cooperation, 2016, p. 110 – 112, 152 – 155.

<sup>8</sup>Ibid, p. 153.

<sup>9</sup>Ibid, p. 154.

<sup>10</sup>Ibid, p. 110 – 112, 152 – 155.

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The main article of Ukrainian import services from Poland were transport services (particularly automobile services) with 44,3% share in 2015. The other services imported from Poland to Ukraine were: business services (15% in 2015), telecommunication services, services in the sphere of telecommunications, computer and information services (8,3%) and services connected with travels) (8,2%)<sup>13</sup>. It is necessary to mention that Ukraine was second (after Germany) biggest importer of travel-related services (their share amounted to 11,6% of total export of travels in Poland in 2014<sup>14</sup>). Besides, services for insurance were very important if to speak about import services from Poland. Although their import share was not substantial (4,9% in 2015), total import share of these services from the EU amounted to 9% in the same year.

Thus, we may conclude that today Poland and Ukraine have enormous unrealized potential in various spheres of economic cooperation. Parties express mutual interest in the need to raise the effectiveness of transport services. However, it is necessary to improve the supply of other services such as business, financial, insurance, computer and tourist services. Despite the fact that external trade in services indicators that show the state of trade between Ukraine, the EU and Poland decreased during 2014 – 2015, Ukraine should make an effort to use existing potential to implement the conditions of the EU-Ukraine Association Agreement.

#### **The influence of the EU-Ukraine Association Agreement on trade in Ukraine's services**

Taking into account that the EU-Ukraine Association Agreement presupposes liberalization of trade, we may expect revival of trade in services between Ukraine and Poland. In particular, liberalization of trade involves:

- step-by-step mutual liberalization of establishing entrepreneurship;
- cross-border services;
- cooperation in the sphere of electronic commerce;
- the basics of trade in other kinds of services, in particular, computer, postal, and courier, telecommunication, financial and transport services etc.;
- liberalization of the process of entering and temporary stay of service providers on their territory: key staff, business visitors, managers, specialists, graduates-interns of business services sellers, suppliers of agreed services, independent specialists<sup>15</sup>.

Chapter IV of the EU-Ukraine Association Agreement is fully dedicated to services. The provisions of the Agreement involve step-by-step liberalization of trade in most kinds of services except the production and processing of nuclear materials, weapon and ammunition, international air travel, audio and visual services (ст. 87)<sup>16</sup>. Ukrainian companies will be able to set up affiliate offices in the EU countries and Ukrainian investments in the EU will have additional protection. However, the Agreement establishes certain restrictions on service export and, according to the Agreement, Ukraine commits to start adapting national legislation to make it compliant with the EU's legislation as stipulated by Appendixes XVI-B and XVI-E.

According to the Agreement, if Ukraine introduces all the requirements of the Agreement and Appendixes XVI-B and XVI-E in particular, the spheres of postal, courier (art.109, 110), financial (art. 125 – 133), telecommunication services (art. 115 – 124) as well and marine shipping (art. 135) will become a rightful part of the EU services market<sup>17</sup>.

<sup>11</sup> Ibid, p. 153.

<sup>12</sup> Ibid, p. 154.

<sup>13</sup> Ibid, p. 154.

<sup>14</sup> Yearbook, 2015, p. 212.

<sup>15</sup> **Пятницький, В.** Торгівля з ЄС, p. 3

<sup>16</sup> <[www.kmu.gov.ua/control/publish/article?art\\_id=246581344](http://www.kmu.gov.ua/control/publish/article?art_id=246581344)>

<sup>17</sup> Ibid.

As for the regulation of financial services market, it is worth discussing two points. Firstly, an exception to the aforementioned provisions is the activity of the state in the sphere of providing financial services related to the pension system and the system of social security as well as the central bank of the country or central state body, which conducts monetary policy (art.130). Secondly, according to the order of national financial market regulations, each of the Parties shall guarantee the suppliers of financial services of another party free access to payment and clearing systems which are managed by public companies and to all the financing and refinancing needed to ensure proper business operations. However, this provision does not give access to the last instance creditor (art. 132).

On taking up the commitments to liberalize the markets of computer, postal, courier and telecommunication services and to introduce regulations in accordance with European standards and implement them, Ukraine will be able to create beneficial environment for service suppliers and facilitate cross-border movement of the services. Fulfillment of the agreement will help to solve business problems such as: specifying the principles and directions of regulator's work in the sphere of monopoly markets and providing non-discrimination access of third parties to electronic communication networks, improve license-granting process and distribution of frequency and numeral resource etc. as today such questions in Ukraine are processed inconsistently and in a non-transparent way. As these and other problems are not solved, this leads to artificial market monopolization, overpricing for the services in question and slower market penetration for new technologies. Simplified cross-border movement of services will make it easier for national IT-sector companies to enter the European market<sup>18</sup>.

By 2020, Ukraine plans to have become a leader in the IT-outsourcing sphere. A new project that involves setting up 100.000 workplaces in this sphere is planned to be implemented by the Ukrainian government together with IT companies' representatives. It is expected to obtain more than 10-billion-dollar income from exporting IT service to the US and the EU as well as 1 billion dollars of investments to expand and modernize educational system. The year 2013 saw the establishment of the first in Ukraine foundation in the sphere of information technologies GlobalTechnologyFoundation. The aim of the foundation is to support IT projects in the sphere of state services, connection, media, education, healthcare and cloud calculation<sup>19</sup>.

Gradual liberalization of international automobile, railway and internal water shipping services will create new opportunities for competition on these markets that in other equal conditions will promote better-quality services and more investments in corresponding infrastructure (in particular, ports, roads, railways etc.). This is particularly important for Ukraine which is quite a big transport corridor connecting the EU and Asian countries. Cooperation between Poland and Ukraine in the sphere of transport and step-by-step approximation of transportation standards will help to eradicate a number of existing barriers for cross-border movement of goods and passengers which in its turn may become a big stimulus for increasing the amount of passengers and cargo transportation by transportation companies and reducing expenses of transport services consumers. Also, cooperation in the sphere of common projects with the EU will allow to engage additional investments to develop and modernize existing transport infrastructure as well as build new transport infrastructure, obtain access to new technologies in transport sector, in particular, such as intellectual transport systems, innovative fuels etc.

Facilitation and unification of e-commerce trading sector shall create certain incentives to develop this relatively young market. Today various regulatory models used in Ukraine and the EU Member States to regulate e-commerce hinder dynamic rise of the e-commerce scope. In addition, it is obvious that mutual opening of the markets will invite European companies to the Ukrainian e-commerce market promoting the development of the latter.

Establishment of clear rules regulating temporary stay of individuals who travel with commercial aims will enable companies providing services in Poland and Ukraine to facilitate mutual access of companies to the market and make it easy for employees and independent specialists to travel. This relates both to companies having permanent establishments on the territory of the EU or Ukraine and to providing direct services on the territory of another country. Eliminating problems in these spheres shall create incentives for the development of the service markets both in Poland and Ukraine and facilitate implementation of common projects in the sphere of providing services, sharing best practices related to business operations in the

<sup>18</sup> <[http://www.ier.com.ua/ua/Ukraine\\_EU\\_project/materials/AA\\_title\\_4/chapter\\_6/internal\\_regulation/](http://www.ier.com.ua/ua/Ukraine_EU_project/materials/AA_title_4/chapter_6/internal_regulation/)>

<sup>19</sup> Седікова, І. О., 2014, p. 76.

sphere of services. Such Polish business giants as Kredobank (today in the structure of share capital, JSC “Kredobank” the investments of a strategic shareholder PKO Bank Polska SA amount to 99,6%) and PZU – Ukraina (one of the biggest insurance companies on the territory of Ukraine).

Therefore, if the provisions of the Association Agreement are fully adhered to, Ukrainian companies will be able to sell separate services on the EU markets on better conditions than any other countries and in some cases will have an opportunity to make use of national treatment. The Agreement enables Ukrainian suppliers to establish representative offices (on condition of meeting certain requirements) and automatically becomes valid for new products in the future.

Besides, in several years Ukraine obliges to adapt its legislation to the EU norms of government purchases. Except for the army purchases, Ukrainian suppliers and service providers will have full access to the markets of government purchases of the EU. Suppliers and service providers from the EU, including Poland, will have the same access to Ukrainian purchase market. This chapter is an example of unprecedented integration to the EU market of a country that is not a member of the European economic space.

### Conclusions

The Republic of Poland has been a strategic partner of Ukraine in all the spheres of international relations starting from the time of Ukraine's independence. Both countries will benefit from the agreement on the free-trade zone. From the point of view of business, which is dependent on the cross-border service delivery, the establishment of equal regulatory conditions for such services and equal access to national markets of the Parties shall substantially strengthen competitiveness among such suppliers. For Ukrainian suppliers this will mean strengthening of competitive pressure on the one hand and easier access to the competitive EU markets with the services where Ukraine has competitive advantages (e.g. information and communication technologies and transportation services) on the other hand. It is obvious that stronger competition will require certain expenses on adaptation to the new rules.

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