



*Understanding the EU's Association Agreements  
and Deep and Comprehensive Free Trade Areas  
with Ukraine, Moldova and Georgia*

# **The radical changes in trade structures of Georgia, Moldova and Ukraine, towards Europe, away from Russia**

**Michael Emerson, Vadim Gumene,  
Tamara Kovziridze and Veronika Movchan**

**27 April 2017**

## **Summary**

With the entry into force of the EU's Association Agreements that include Deep and Comprehensive Free Trade Areas (DCFTAs) with Georgia, Moldova and Ukraine, the evolution of the trade structures of these three countries is being closely watched. However the trends need to be viewed over a time-horizon that stretches back several years when EU trade policies towards then three states were already being gradually liberalised before the DCFTAs, and with the dynamic impacts of the DCFTAs themselves likely to develop over the years and even decades to come.

In this perspective the last decade has seen a continuous and substantial shift in trade structures of the three DCFTA states towards the EU, with corresponding declines in Russia's trade shares. A similar picture emerges when one looks at the wider trade groups led respectively by the EU (with an 'EU+' that includes the EU's other free trade partners in the European neighbourhood), and by Russia with the Eurasian Economic Union.

As a result, whereas in 2005 the trade shares of the 3 DCFTA states with the EU and Russia were of comparable orders of magnitude, by 2016 the EU's share had risen on average to around 5 times that of Russia.

The relative decline of Russia's trade shares may be attributed to a combination of macroeconomic trends (lower commodity prices and the resulting recession) and Russia's own making with its political manipulation of trade policies. The DCFTA agreements themselves have not introduced any hindrances to trade with Russia. The serious economic losses for Russia's trade with the three DCFTA states are not irreversible, but a recovery would require both a strengthening of commodity prices and deep changes in Russia's trade policies. The EU and the DCFTAs in no way impede that.

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# The radical changes in trade structures of Georgia, Moldova and Ukraine, towards Europe, away from Russia

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Tamara Kovziridze and Veronika Movchan\*

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## Introduction

This note sets out the basic data on the evolving trade structures of the three states that have made DCFTAs with the EU (Georgia, Moldova, Ukraine).

The trade data is assembled for the trade of each of three DCFTA states with their major trade partners, or groups of trade partners:

- **EU**
- **EU+:** adding other neighbouring states having free trade agreements with the EU (EFTA/EEA, CEFTA, Turkey, South Mediterranean states, DCFTAs)
- **Russia**
- **EAEU:** Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia)

## 1. The radical change in trade structures

Over the last decade, from 2005 to 2016 the change in trade structures of Georgia, Moldova and Ukraine may be summarised as follows:

- On average (unweighted) the % share of their total trade (exports and imports), with the EU and EU+ went up by around 10% points, whereas the losses of Russia and the EAEU were roughly of the similar orders of magnitude (Tables 1a,b, Figures 1a,b).
- As a result the EU's share rose to an average of 45% and that of the EU+ to 59%, whereas Russia's share fell to 9% and that of the EAEU to 17% (Tables 1a,b, Figures 1a,b).
- Thus the new trade structure sees the EU accounting for about 5 times more than Russia, and the EU+ for about 3.5 times more than the EAEU.
- As between the DCFTA states, their new trade shares are of comparable magnitudes with Russia and the EAEU respectively. The main outlier is the

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case of Moldova's much higher trade with the EU (65-69%) compensated by much less trade with the rest of the world (excluding the EAEU).

## 2. Trade with Europe

The dates of entry into provisional force of the DCFTAs (September 2014 for Georgia and Moldova, January 2016 for Ukraine) are only of relative importance in interpreting the trends in trade flows. For sure, these agreements are major milestones for the economies of Georgia, Moldova and Ukraine. However much was underway in the years before, and much of the dynamic impacts remain to be seen in the years to come.

In particular, the EU had been progressively liberalising its import regime for these countries through various preferential arrangements with the Generalised System of Preferences (GSP) and Autonomous Preferences for several years before the DCFTAs.

The DCFTA agreements saw the EU completing its tariff liberalisation measures in one go.

On the side of the DCFTA states, their tariff liberalisation for imports from the EU will only take place progressively from the date of entry into force of the agreements, with transition periods lasting mostly from three to seven years; but with the important exception of Georgia which had already largely liberalised its imports towards the whole world unilaterally a decade ago and completed the opening of its market to EU imports immediately after the DCFTA was launched.

In addition the DCFTA states are now engaged in adopting European technical standards for industrial goods (TBT) and food safety regulations (SPS), which will take quite a few years to implement fully. These measures will progressively help companies from the DCFTA states to increase their access to EU markets.

The importance of the EU+ as a grouping is also going to be enhanced by the ongoing development of the Pan-Euro Mediterranean Convention on Preferential Rule of Origin (PEM). The PEM provides the legal basis for European countries that share free trade agreements to engage in 'diagonal cumulation' of value added when there is a value chain of three (or more) countries in order to profit from tariff-free market access. This is subject to a separate paper<sup>1</sup>. It suffices here to note that full development of the PEM system, including for the DCFTA states, will take some years. In due course it should lead to deepening trade integration across this wider European region.

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<sup>1</sup> Tamara Kovziridze et al, forthcoming.

Overall these developments mean that the intensification of trade links between the DCFTA states with the EU and EU+ is from a policy standpoint programmed to increase steadily over the foreseeable future.

### **3. Trade with Russia and the Eurasian Economic Union**

The DCFTA states have shared with Russia and the other states of the Eurasian Economic Union multiple free trade agreements, including bilateral FTAs signed over 1990s, and a free trade agreement signed under the aegis of the CIS in 2011, except that Georgia has a special regime<sup>2</sup>.

Broadly speaking trade between the DCFTA states and other CIS countries except Russia continues to flow without major problems at the policy level. However the actual imports of Russia and other EAEU states have been severely hit by the economic crisis resulting from the drop in commodity prices, and the associated exchange rate depreciation and economic recession.

However with Russia there are further policy-driven problems in all the cases of all the DCFTA states.

The most serious setback been in trade between Ukraine and Russia as a result of Russia's annexation of Crimea and hybrid war in the Donbass, leading to the suspension of their CIS free trade agreement, punitive TBT/SPS measures<sup>3</sup> and various reciprocal trade sanctions. In addition Russia has for some years been pursuing an economic policy of increasing import substitution that has impacted some Ukrainian enterprises severely.

Russia imposed a trade embargo on Georgia in 2006 as part of its mounting provocations that culminated in war in 2008, with Russia's invasion of Georgia. Since 2013 trade relations have seen a comparative normalisation, although not all the trade sanctions have been lifted. Over the years there were recurrent episodes in which Russia manipulated technical regulations for geo-political purposes.

Moldova has also experience of Russia's politically-driven manipulation of technical regulations, especially regarding agri-food products. Wine producers have been hard

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<sup>2</sup> The special position of Georgia in relation to the CIS has to be noted. Georgia left the CIS politically in 2008, but its participation in the 1994 multilateral FTA of the CIS has remained in force. Georgia is not part of the new 2011 CIS FTA. Its trade with CIS members thus continues to be based on the 1994 FTA, complemented by bilateral FTAs with most but not all CIS countries. In cases where there is no bilateral FTA, the 1994 multilateral applies.

<sup>3</sup> Denis Cenusă, Michael Emerson, Tamara Kovziridse and Veronika Movchan (2014) Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia. CEPS Working Document No. 400 / September 2014  
[https://www.ceps.eu/system/files/WD%20300%20Punitive%20Trade%20Measures%20by%20Russia\\_0.pdf](https://www.ceps.eu/system/files/WD%20300%20Punitive%20Trade%20Measures%20by%20Russia_0.pdf)

hit in the past, to the point of forcing Moldovan producers to look to new export markets, especially in the EU. Currently only a limited number of Moldovan companies producing goods of animal origin can export to Russia. On the other hand producers in the Russia-friendly region of Gagauzia get more favourable market access conditions.

Overall the serious setback to Russia's trade relations with the DCFTA states is attributable to a mix of global macroeconomic conditions (especially the lower commodity prices) and Russia's own making with its choice to administer politically motivated sanctions. Russia's track record of politicised 'on and off' sanctions has had a counter-productive economic impact in pushing the DCFTA states to look to other more reliable markets. By contrast the trade policies of the EU, and the DCFTA agreements in particular, have not introduced any restrictions on the DCFTA states' trade with Russia. The EU's own trade policies include requirements for third-country exporters to observe strict technical standards of the EU, but these are administered in a professionally reliable manner without political interference.

Russia's relative losses are not irreversible. EU policies do not stand in the way. Commodity prices may recover at some point. But Russia has to decide for itself whether or how far to be an open economy, and whether to try and re-establish a reputation for being a reliable trade partner.

#### **4. Further notes on Georgia, Moldova and Ukraine**

Georgia, which liberalised its trade, including tariffs and non-tariff barriers, unilaterally and radically in 2006, has seen the fastest growth of its exports and imports with the EU in value over the last decade, both increasing by about 350% from 2005 to 2016 (Tables and Figures 3a and 5a). The decline in value terms in 2016 was largely attributable to the sharp devaluation of the Georgian lari.

Moldova's trade with the EU has also been advancing substantially over the same period, with increases in value of 300% for exports and 190% for imports (Tables and Figures 3b and 5b). The recent decline in imports from the EU reflects the macroeconomic recession experienced in 2015 and modest resumption of growth since then.

The trends for Ukraine have been more uneven. In the period 2005 to 2010 exports were boosted by high commodity prices, which peaked in 2011 and then fell by half until 2015 (Tables 3c and 5c).

In the very difficult circumstances since 2014 in which the conflict with Russia depleted Ukraine's resources, it is notable that increases in trade with the EU could still be registered in 2016 over 2015, by 3.7 % for exports and 12 % for imports.

For Ukraine there is also the statistical problem of accounting for the discontinuity due to loss of government control over Crimea and the Eastern Donbass. While

Crimea accounted for a very small amount of Ukraine's external trade (about 1% for both exports and imports), the contribution of the two Donbass oblasts (Donetsk and Lugansk) was very substantial (32% of exports and 7% of imports in 2010). However not all these two oblasts have become occupied territories. Precise data on the split of external trade between the occupied and government controlled parts of these two oblasts in earlier years is not available, and we can only make a rough assumption of the share of the occupied territories (about two-thirds of exports and half of imports).

If these data are fed into the comparisons of Ukraine's external trade before and after the conflict in Donbass, they materially change the results for government controlled Ukraine. The official unadjusted data show the value of total Ukrainian exports to have declined by 25% from 2010 to 2016 due to the collapse of trade with Russia (Table 3d), while exports to the EU remained stable (Table 3a). However the picture given by adjusted data is very different. Total exports from the territories currently controlled by the government would have declined only by 5%, while exports to the EU (supposing the share of its exports to government controlled versus non-controlled territories would have been the same as for total exports) would have increased by 28%. The overall picture therefore is one of a significantly more robust export performance of the government controlled Ukraine than the unadjusted data suggests, even if our adjustments can only be roughly indicative.

## Tables and Figures

*Table 1a: % shares of total exports and imports of Georgia, Moldova and Ukraine in 2016*

	<b>EU</b>	<b>EU+</b>	<b>EUAU</b>	<b>Russia</b>
<b>Exports</b>				
Georgia	27	45	20	10
Moldova	65	76	17	11
Ukraine	37	58	14	10
<b>Imports</b>				
Georgia	30	57	13	9
Moldova	49	68	16	13
Ukraine	44	51	21	13
<i>Average (unweighted)</i>	<i>45</i>	<i>59</i>	<i>17</i>	<i>9</i>

*Table 1b: Changes in % points of market shares of total exports and imports of Georgia, Moldova and Ukraine from 2005 to 2016*

	<b>EU</b>	<b>EU+</b>	<b>EUAU</b>	<b>Russia</b>
<b>Exports</b>				
Georgia	+8	+7	-4	-8
Moldova	+24	+22	-23	-21
Ukraine	+7	+8	-13	-12
<b>Imports</b>				
Georgia	+5	+10	-4	-6
Moldova	+3	-4	-2	-5
Ukraine	+10	+13	-18	-23
<i>Average (unweighted)</i>	<i>+13</i>	<i>+9</i>	<i>-11</i>	<i>-12</i>



Figure 1a: Changes in market shares for Georgia, Moldova and Ukraine exports, 2005 to 2016, % total

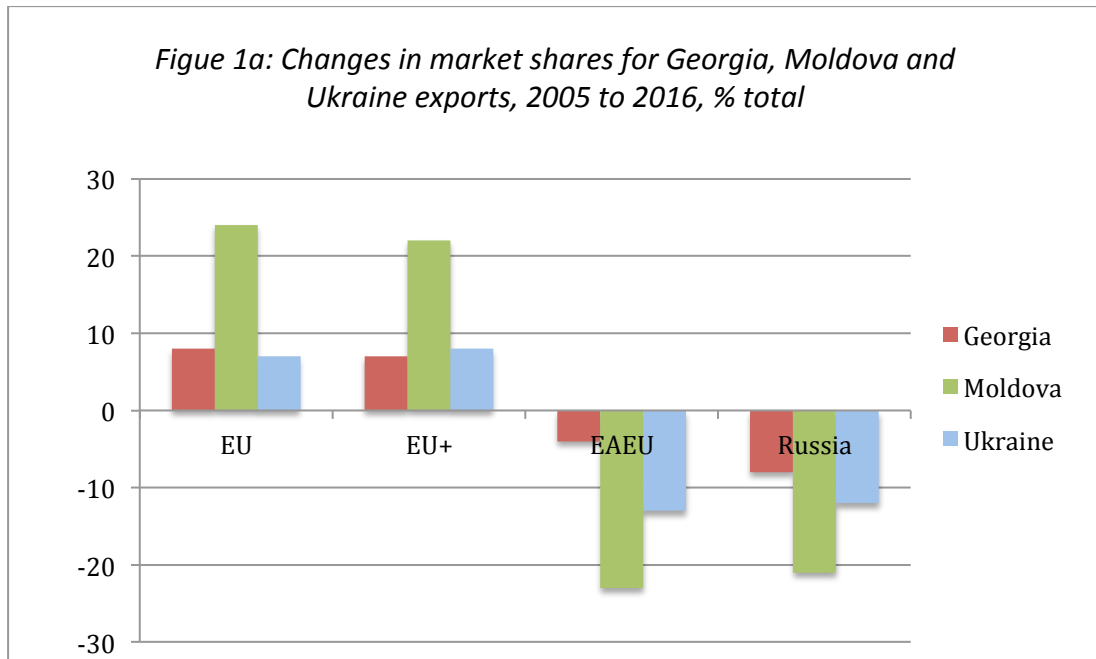
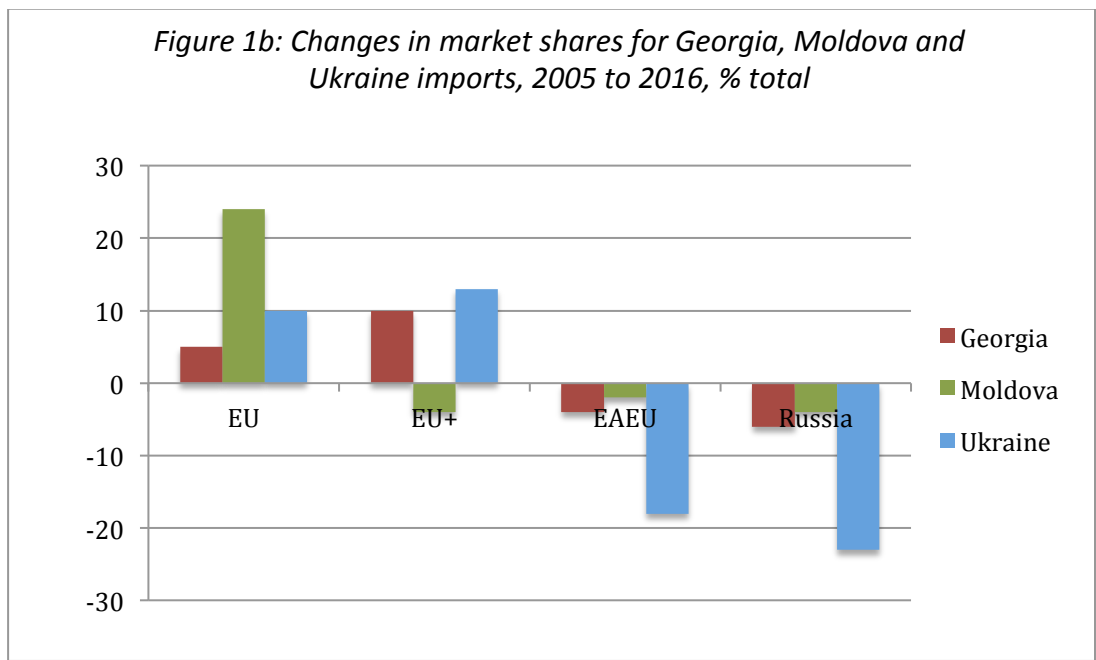


Figure 1b: Changes in market shares for Georgia, Moldova and Ukraine imports, 2005 to 2016, % total



*Table 2a: Exports to the EU as % of total exports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	19	18	29	27
<b>Moldova</b>	41	47	62	65
<b>Ukraine</b>	30	26	34	37

*Table 2b: Exports to the EU and wider European neighbourhood (EU+) as % of total exports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	38	40	43	45
<b>Moldova</b>	54	63	72	76
<b>Ukraine</b>	50	45	56	58

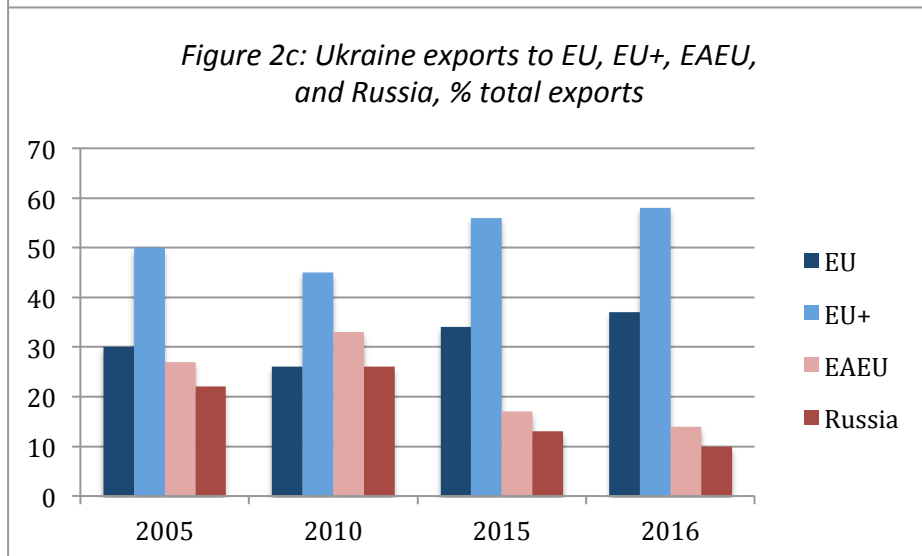
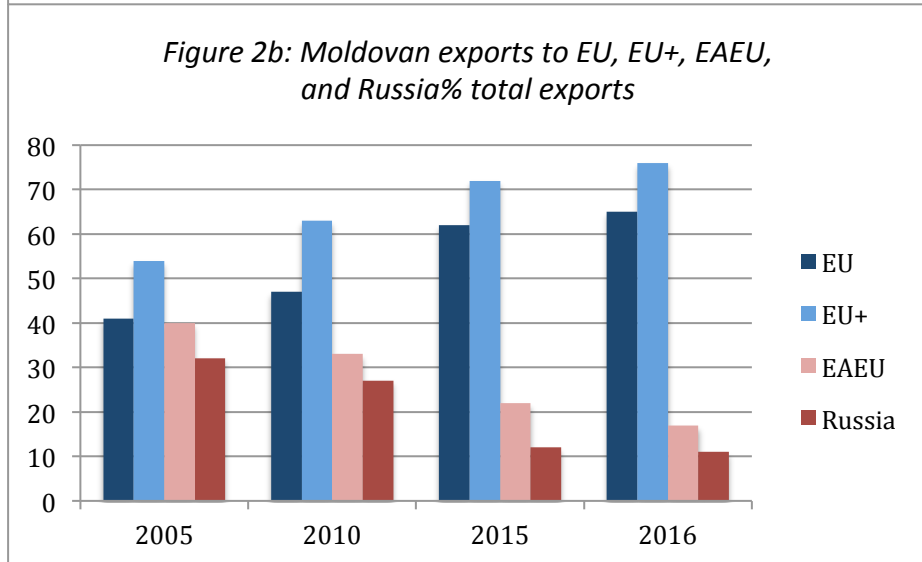
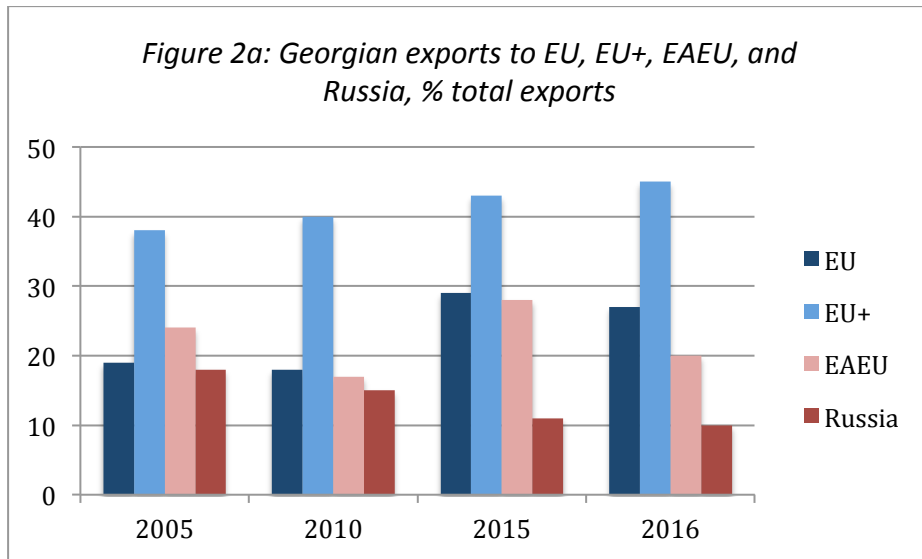
EU+ = EU, EFTA, CEFTA, Turkey, 'other 2' DCFTAs

*Table 2c: Exports to Eurasian Economic Union as % of total exports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	24	17	28	20
<b>Moldova</b>	40	33	22	17
<b>Ukraine</b>	27	33	17	14

*Table 2d: Exports to Russia as % of total exports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	18	15	11	10
<b>Moldova</b>	32	27	12	11
<b>Ukraine</b>	22	26	13	10



*Table 3a: Exports to the EU, \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	165	309	645	571
<b>Moldova</b>	444	747	1,218	1,332
<b>Ukraine</b>	10,298	13,095	13,016	13,498

*Table 3b: Exports to the EU and wider European neighbourhood (EU+), \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	331	670	956	927
<b>Moldova</b>	592	989	1,408	1,546
<b>Ukraine</b>	17,042	22,972	21,185	21,026

EU+ = EU, EFTA, CEFTA, Turkey, 'other 2' DCFTAs

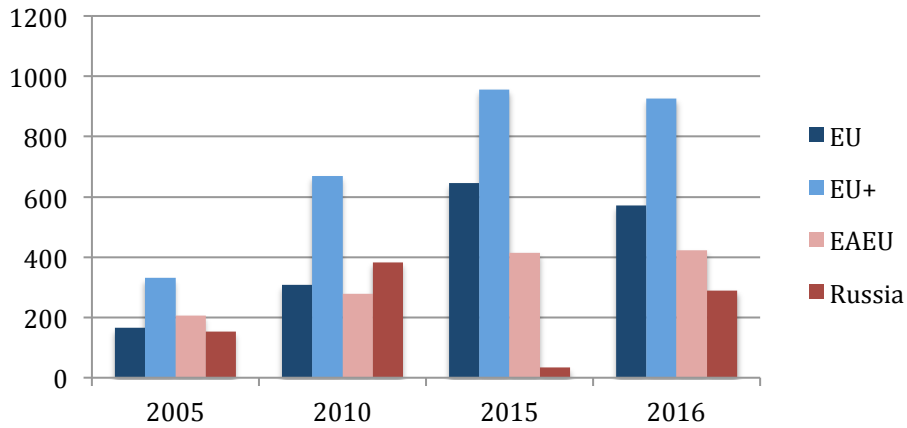
*Table 3c: Exports to Eurasian Economic Union, \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	206	279	415	422
<b>Moldova</b>	439	519	434	342
<b>Ukraine</b>	9,177	17,908	6,589	5,025

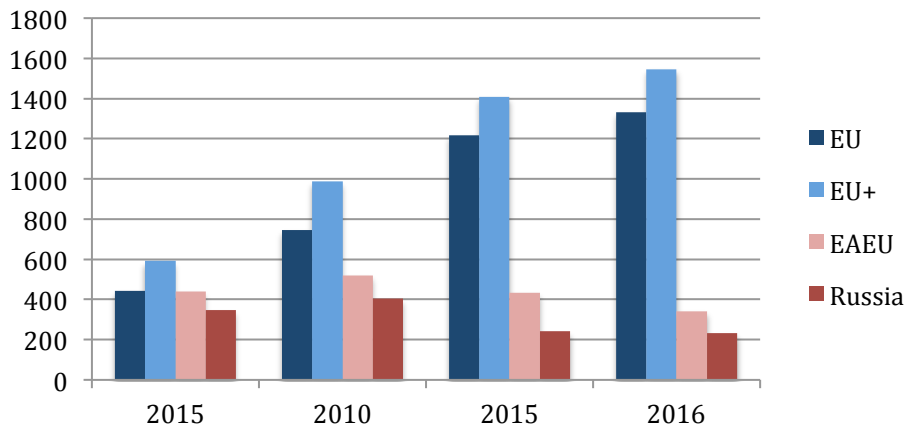
*Table 3d: Exports to Russia, \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	154	382	35	290
<b>Moldova</b>	347	404	241	233
<b>Ukraine</b>	7,490	13,432	4,828	3,592

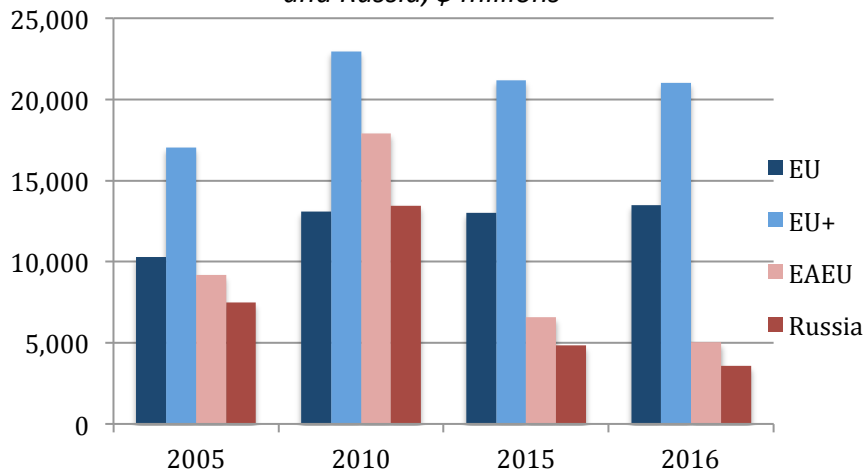
*Figure 3a: Georgian exports to EU, EU+, EAEU, and Russia, \$ millions*



*Figure 3b: Moldovan exports to EU, EU+, EAEU, and Russia, \$ millions*



*Figure 3c: Ukrainian exports to EU, EU+, EAEU, and Russia, \$ millions*



*Table 4a: Imports from the EU as % of total imports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	25	28	33	30
<b>Moldova</b>	45	44	49	49
<b>Ukraine</b>	34	32	41	44

*Table 4b: Imports from the EU and wider European neighbourhood (EU+) as % of total imports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	47	40	58	57
<b>Moldova</b>	72	65	68	68
<b>Ukraine</b>	38	36	49	51

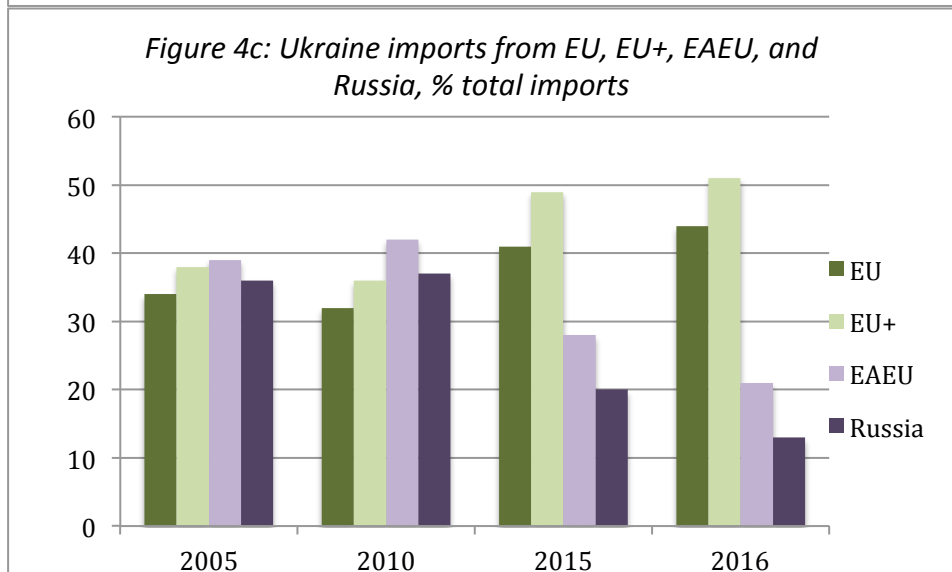
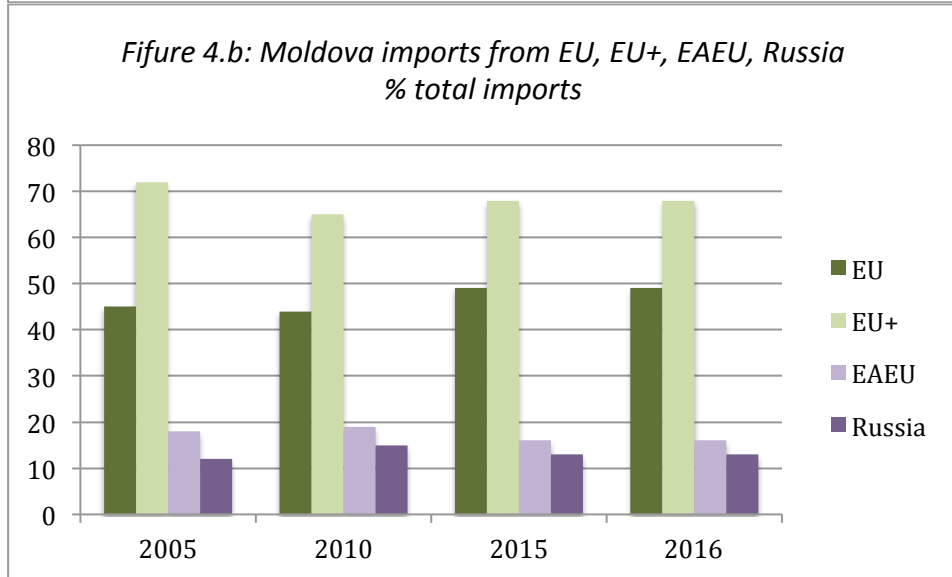
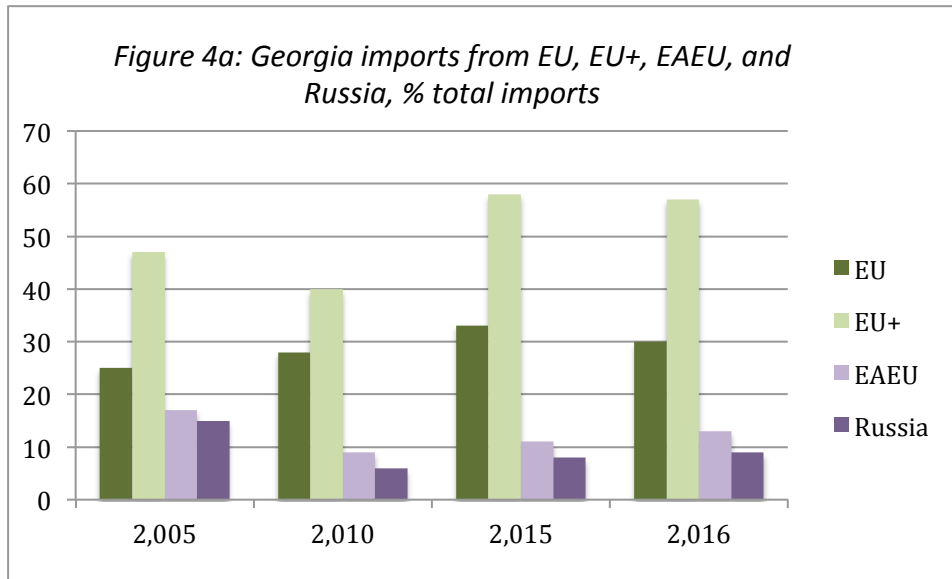
EU+ = EU, EFTA, CEFTA, Turkey, 'other 2' DCFTAs

*Table 4c: Imports from the Eurasian Economic Union as % of total imports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	17	9	11	13
<b>Moldova</b>	18	19	16	16
<b>Ukraine</b>	39	42	28	21

*Table 4d: Imports from Russia as % of total imports*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	15	6	8	9
<b>Moldova</b>	12	15	13	13
<b>Ukraine</b>	36	37	20	13



*Table 5a: Imports from the EU, \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	627	1,467	2,519	2,195
<b>Moldova</b>	1,041	1,706	1,954	1,973
<b>Ukraine</b>	12,210	19,150	15,330	17,138

*Table 5b: Imports from the EU and wider European neighbourhood (EU+), \$ millions*

	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	1,171	2,962	4,451	4,063
<b>Moldova</b>	1,652	2,511	2,714	2,722
<b>Ukraine</b>	13,538	21,856	17,919	19,996

EU+ = EU, EFTA, CEFTA, Turkey, 'other 2' DCFTAs

*Table 5c: Imports from the Eurasian Economic Union, \$ millions*

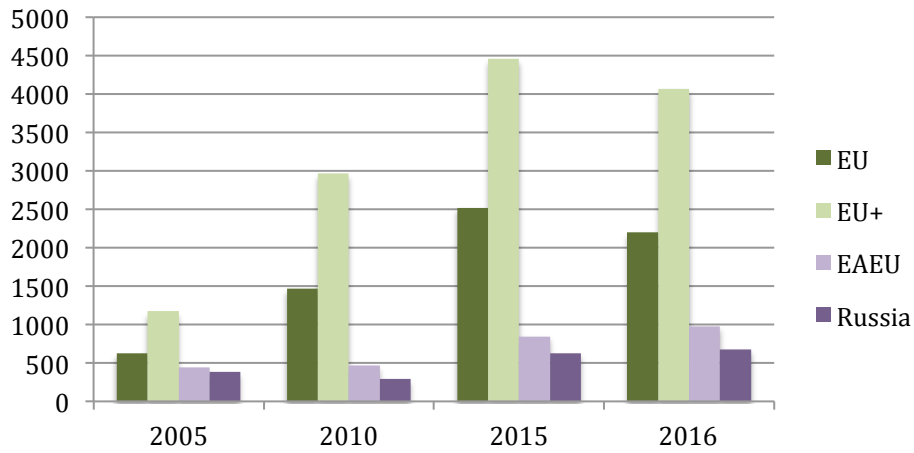
	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	440	467	845	974
<b>Moldova</b>	420	722	632	640
<b>Ukraine</b>	13,987	25,556	8,333	8,370

*Table 5d: Imports from Russia, \$ millions*

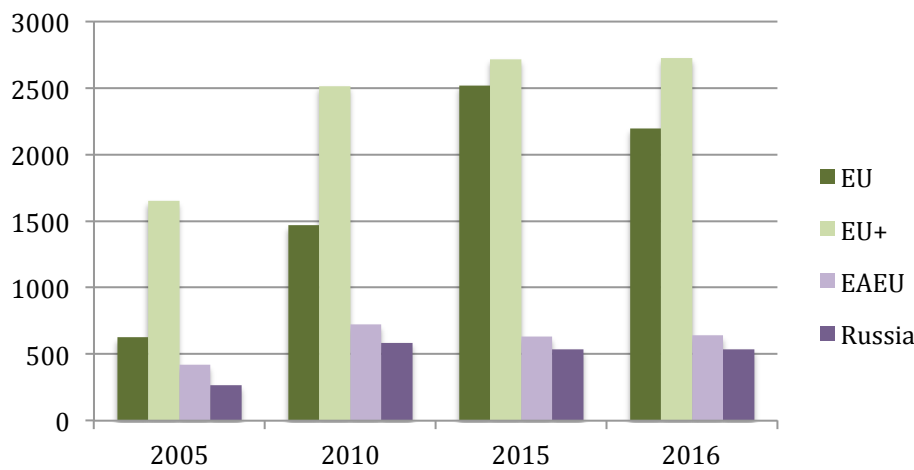
	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2016</b>
<b>Georgia</b>	382	290	625	675
<b>Moldova</b>	268	586	536	535
<b>Ukraine</b>	12,842	22,198	7,493	5,148



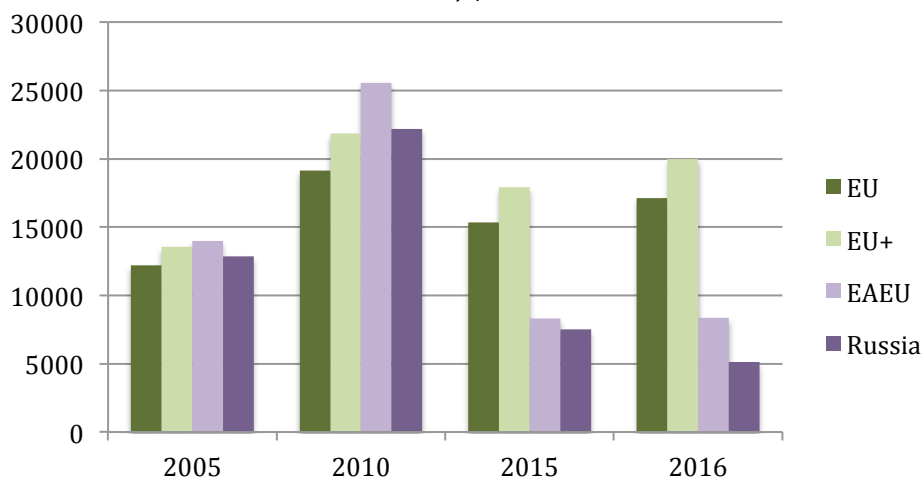
*Figure 5a: Georgia imports from EU, EU+, EAEU, and Russia, \$ million*



*Figure 5b: Moldova imports from EU, EU+, EAEU, and Russia, \$ millions*



*Figure 5c: Ukraine imports from EU, EU+, EAEU, and Russia, \$ millions*



*Table 6a: Exports of Georgia, Moldova, Ukraine by region, 2016, \$ millions*

	<b>Georgia</b>	<b>Moldova</b>	<b>Ukraine</b>
<b>EU</b>	<b>571</b>	<b>1,332</b>	<b>13,498</b>
EFTA/EEA	82	45	122
CEFTA	0.3	11	222
Turkey	174	62	2,049
South Meds.	25	30	4,263
Other 2 DCFTAs	75	47	872
<b>Total above: 'EU+'</b>	<b>927</b>	<b>1,546</b>	<b>21,026</b>
Russia	206	233	3,592
Other EAEU	216	119	1,433
<b>Total EAEU</b>	<b>422</b>	<b>352</b>	<b>5,025</b>
Rest of world	769	147	10,312
<b>World total</b>	<b>2,114</b>	<b>2,045</b>	<b>36,363</b>

*Table 6b: Imports of Georgia, Moldova, Ukraine by region, 2016, \$ millions*

	<b>Georgia</b>	<b>Moldova</b>	<b>Ukraine</b>
<b>EU</b>	<b>2,195</b>	<b>1,973</b>	<b>17,138</b>
EFTA/EEA	61	44	1,211
CEFTA	8	26	135
Turkey	1,353	272	1,100
South Meds.	18	23	298
Other 2 DCFTAs	429	386	114
<b>Total above: 'EU+'</b>	<b>4,063</b>	<b>2,722</b>	<b>19,996</b>
Russia	675	535	5,148
Other EAEU	299	105	3,222
<b>Total EAEU</b>	<b>974</b>	<b>640</b>	<b>8,370</b>
Rest of world	2,300	658	7,997
<b>World total</b>	<b>7,337</b>	<b>4,020</b>	<b>36,363</b>

*Statistical sources: Statistical offices of Georgia, Moldova and Ukraine.*