

Exploring Ukraine's accession to the WTO and the impact on its economic development

Siyuan Shen*

School of Ulink College, Guangzhou, China

*Corresponding author: siyshen2325@ulinkcollege.com

Abstract. This paper explores whether Ukraine has gained economic benefits from it after it acceded to the WTO and is expected to play a role. Generally, the public believes that joining the WTO can help countries integrate into global development. However, under many WTO reform items, whether small economies can preserve their economic benefits without being impacted by strong competition from foreign countries has become a question worth exploring. This analysis explains a series of consequences brought by Ukraine after the economic policy reform from deregulation, state-owned enterprises reform, and government procurement advocated by the WTO in the perspective of constructivism and indicates the pros and cons of the removal of trade barriers on the social and economic development of small economies like Ukraine.

Keywords: Ukraine, WTO, economic policies reform.

1. Introduction

With the gradual popularization of globalization, trade with different economies in the world has become an irresistible trend. The establishment of the world trade organization (WTO) is the result of the progress of economic globalization. With the division of labor and specialized production of all countries in the world, trade between countries becomes more frequent with the help of developed transportation facilities [1].

Before the disintegration in 1991, Ukraine was the former Soviet Union's industrial and agricultural base, with its long coastline and strategic importance. After the disintegration, the advantageous industries of Ukraine, such as mineral, grain and heavy industry, all suffered a strong impact, and the transformation from planned economy to market economy brought great challenges. It is generally believed that the transformation of the centrally planned economy (CPEs) into the market economy (MEs) is a long and complex process invariably and in view of the fast-changing circumstances in these economies, it may well be preferable to adopt a timely, albeit somewhat imperfect, comprehensive reform program than to search for the perfect program, encompassing a fine-tuned sequence of policy measures [2]. It can be seen that the Ukrainian government needs to choose a more sensible policy when the economic model is changing.

As a Commonwealth of Independent States (CIS) country, Ukraine became independent after the collapse of the Soviet Union in 1991 and began to pursue its own economic development, including efforts to improve its economic development by joining the WTO. The existence of some positive indirect effects of GATT/WTO on promoting trade, such as a generalized fall in trade barriers and a more transparent, predictable, and trade facilitating environment [3]. These factors might have prompted regional trade agreements that seem to have an effect on boosting trade. As a result, WTO accession is an important step for Ukraine towards opening its market and integrating more deeply into global trade.

This paper deals with the impact of Ukraine on entering the WTO, mainly focusing on the alternation that Ukraine has made to apply the accession to the WTO which is related to the transformation of centrally planned economy to functioning market economy and analyzed with constructivism.

2. Literature review

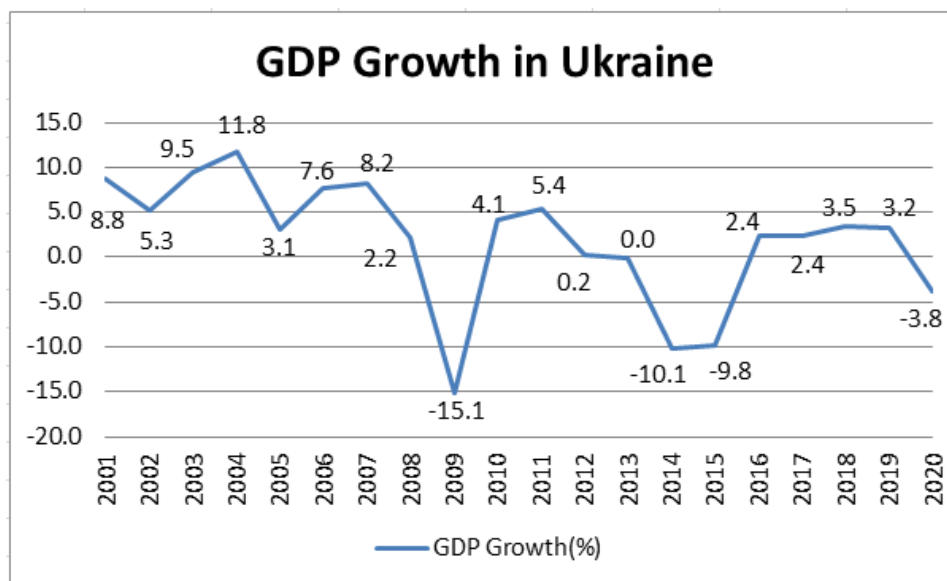


Figure 1. Ukraine GDP growth [4]

As can be seen from figure 1, after Ukraine's accession to the WTO in 2008, although it experienced negative GDP growth of -15.1% immediately in 2009, its GDP maintained a relatively stable economic growth rate except for the social fluctuations caused by the Crimea incident in 2014 and 2015. Through the above information, it is generally believed that the economic development of Ukraine after joining the WTO will be more vigorously, therefore, research of Ukraine in the accession to the WTO to what degree to alter the economic development can reflect the globalization of trade era and illustrate that it is meaningful for the discussion of the effect of entering WTO.

Since its independence, Ukraine has made many WTO-compliant changes that indicate the transformation from planned economy to market economy, which includes three main aspects.

2.1 Deregulation

As part of WTO accession requirements, deregulation has always been considered an important step for the transformation from CPEs into MEs. Nowadays, The Strategy for Sustainable Development "Ukraine 2020" was being implied and the plan overall aims at the elimination of excessive regulation and administrative burden, improvement of technical regulation licensing and permitting procedures, simplification of customs and tax regulation, and reduction of corruption level [5].

This proves that deregulation has helped Ukraine to get more foreign investment, and the Ukrainian government has set up different supervisory committees to deal with disputes and properly manage enterprises and capital investment. There are also policies to reduce licensing requirements and the cost and time it takes to set up a business while eliminating monopolistic markets and removing trade barriers to improve competition. Apart from the above measurement, there is still restriction for supervision which contributes to diminishing bureaucracy, and benefits in creating better investment and business environment.

2.2 State-own enterprises(SOEs) reform

In the former planned economy, almost all of Ukraine's large enterprises were state-owned. On this basis, Ukraine reduced the number of state-owned enterprises and launched the reform of state-owned enterprises. In 2015, Ukraine has launched the SOEs reform with the ultimate goal to build a healthy and transparent SOE's management by implementing global best practices, increasing the efficiency of the SOEs, enhancing their corporate governance, attracting investment, and, as a result, creating value for the country [6].

Improving the transparency and administrative standardization of state-owned enterprises is an effective measure to enhance the economic competitiveness of Ukraine, and the establishment of the review mechanism is also effective. Since Ukraine's own resources are not properly operated, on the other hand, privatization can help the government to manage social resources and improve productivity more effectively, so as to enhance competitiveness, attract foreign investment, and promote integration with global capital to create a more high-end job position and further boost the Ukraine economy in a long run.

2.3 Government procurement

In order to satisfy the WTO's requirements for Ukraine's accession, Ukraine has begun to reform its government.

The initiative to reform public procurement in Ukraine surfaced in early March 2014 with the aim to completely transform the system so as to make it transparent, non-discriminatory, and easy to monitor [6].

This includes the establishment of "On procurement" (hereinafter - the Law) in order to improve public procurement transparency, the draft of the Harmonization of the Procurement System in Ukraine with EU Standards, jointly established with the European Union Strategy of Public Procurement Reform ("Roadmap") and the WTO Agreement on Government Procurement (GPA). All this has led to restrictions and controls on Ukraine's own government power, benefiting the economy into a more market-oriented system than operated by a centralized government, further contributing to triggering higher vitality in the Ukraine market.

These government measures have brought Ukraine's own market system and legislative standards closer to the standard of other developed economies like Western Europe countries and also heralded a more open market.

3. Methodology

Literature review is applied in this research to analyze how deregulation, state enterprises reform, and government procurement function in promoting Ukraine's trade and economic growth. Sources of materials include the number of enterprise entities, foreign direct investment, unemployment rate, and trade record of Ukraine. In this article, the analysis focuses on the strengths and weaknesses of the policies; the recent trade balance between Ukraine, and two other major trade partners, and the theoretical consideration.

The reasons for choosing constructivism to discuss is due to the uniqueness of Ukraine and many CIS governments. When the CIS countries declared independence, the ruling classes did not prove their competence or commitment to the national interest, because they complied with the resolution of the full referendum and were mostly rather hasty. Such untested, rushed governments are prone to conspicuous errors in governance, such as the 10% decline in GDP that occurred over each year under the first Ukrainian president. Domestic political actors' appropriation of international norms and rules can influence the state policy choice [1]. However, the issues of the interests pursued by Ukraine and its identity have not been solved for a long time after the collapse of the Soviet Union, whether the role played by the ruler of Ukraine and the decisions he made are really biased toward the interests of Ukraine, and whether his mediation is reasonable, all these issues are worthy of discussion from the perspective of constructivism.

Ukraine's foreign trade situation analysis can effectively prove that after the reform of the WTO requirements whether Ukraine's economy so better in the world trade circle and have the sustainable development of the trade industry, at the same time prove during the transformation process of the planned economy to the market economy, the government supply side policy could influence the national economy and explore the internal economic structure and industrial protection measures.

4. Empirical Analysis

4.1 Strength and weakness of the transformation in the perspective of constructivism

Constructivism is rooted in sociology, social theory, and philosophy of knowledge.

4.1.1. Deregulation

The ultimate aim of deregulation is to lower the trade barrier and encourage an open and dynamic economic environment, make the market more competitive, and attract foreign investment to achieve long-term social and economic development.

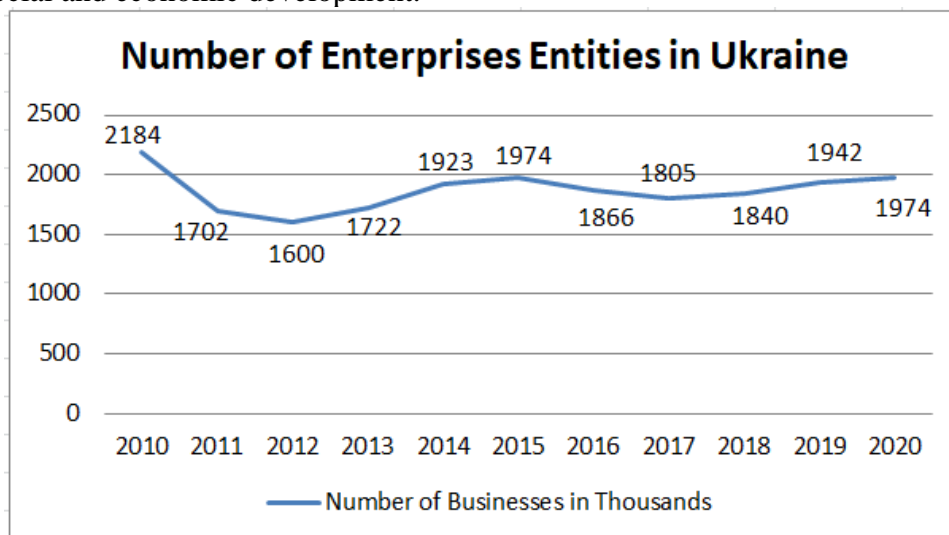


Figure 2. Number of business entities in Ukraine [4]

According to Figure 2, from 2010 to 2020, the number of business entities in Ukraine stay at a stable level that over 1600 each year. This can be attributed to the deregulation and administrative regulations in Ukraine. The simple application process has made the social and economic atmosphere more vibrant and partly solved the biggest problems in Ukraine -- bureaucracy and corruption. The influence of deregulation will not only be limited to the establishment of more enterprises but also bring more jobs. Due to the influence of the integration into the market economy, Ukraine will also improve its low employment rate caused by privatization, thereby increasing the participation rate of social work and improving people's livelihood.

For Ukraine, under the condition that domestic demand is not developed, Ukraine's economic development largely depends on the export of its advantageous industries. Such as the energy industry, and mineral and agricultural resources, joining the WTO is the best way to bring export advantages and benefits in being part of global trade. Therefore, when joining the WTO, the Ukrainian government is obviously inclined to follow the requirements of the WTO in a very low profile and seek a way to join as soon as possible. At the same time, although Ukraine's government is not coherent, they still maintain the same attitude toward joining the WTO and making effort.

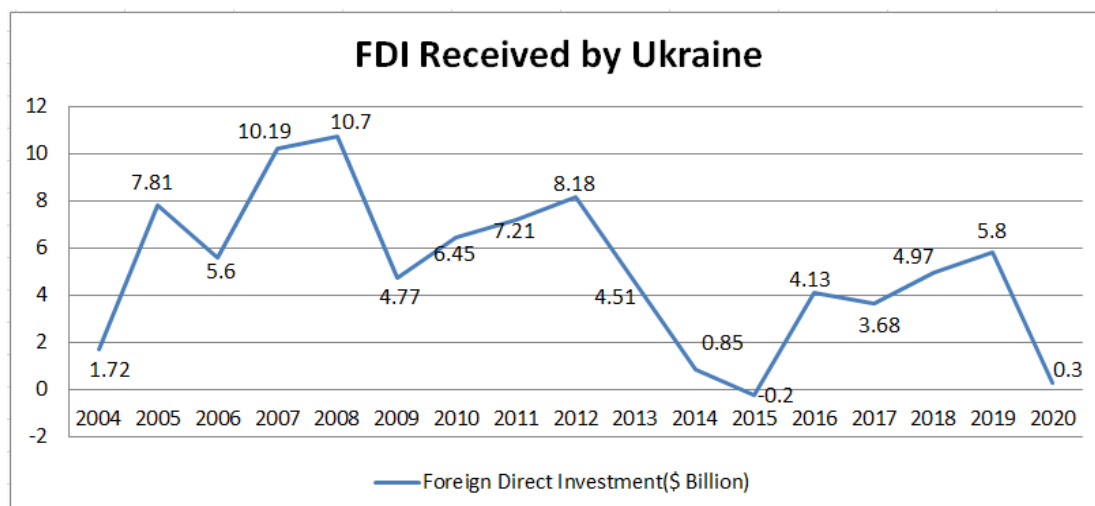


Figure 3. The foreign direct investment (FDI) of Ukraine from 2004 to 2020 [8]

However, deregulation may also lead to a negative impact. From figure 3, After Ukraine's accession to the WTO, FDI showed a downward trend for most of the time, except for a peak in 2008 and a brief increase after 2009 and 2017. Especially in 2014 and 2015, because of the Crimea incident, Ukraine's capital flight problem appeared particularly serious. Deregulation could harm vulnerable domestic industries that may lack the ability in competing with those strong foreign markets. On the other hand, this situation also depends on Ukraine's strong dependence on the outside world. Since it has no irreplaceable industries after independence, its position in the industrial chain is not solid. Besides, the domestic demand side also shows weak signals, leading to low interest in foreign capital.

4.1.2 State-own enterprises(SOEs) reform

SOEs reform could be beneficial by breaking up monopolistic markets and adjusting reasonable market prices, creating a competitive market with higher quality products and higher efficiency. The major industries that experienced monopoly include energy, especially natural gas, which Ukraine firstly started its reform. This movement may likely lead to a more innovative movement and competitive market in Ukraine. The market economy also brings opportunities for investors, so some beneficiaries will actively promote SOEs reform.

However, reform could also harm domestic industries, the high profit gained from monopoly is considered to be an advantage for Ukraine's government to achieve interest maximization. Also, Ukraine can negotiate with European countries with natural gas and other resources as a national monopoly, so as to gain bargaining chips. There is social interaction involved with the consequences of transformation that the attitude toward deregulation and privatization in domestic countries. Former employees of state-owned enterprises are likely to lose their jobs due to sudden privatization, which will trigger social conflicts. The process of privatization would lead to widespread unemployment and reduced domestic demand. Although the Ukrainian government prefers a more moderate approach to reform, it remains to be seen whether the setting of its laws really fits the national situation. The conflict between people who prefer a monopoly structure and people who prefer a transparent government is likely to be continued.

4.1.3 Government procurement

As Ukraine continuously makes effort to integrate into world trade, the standardization of government procurement is an important step to enhance its integration into world standards. Due to the prevalence of bureaucracy and corruption, Ukrainian government procurement has not implemented efficient and fair use of resources, stimulating the competitive atmosphere. As a result, this way to meet the WTO entry requirements is beneficial to Ukrainian society.

However, in some particular industries, direct procurement could become a type of subsidy in order to support infant industries to develop, which acts as protectionism. The reform of government procurement could result in the loss of local enterprises.

4.2 Ukraine's trade performance with main partner countries from 2015-2020

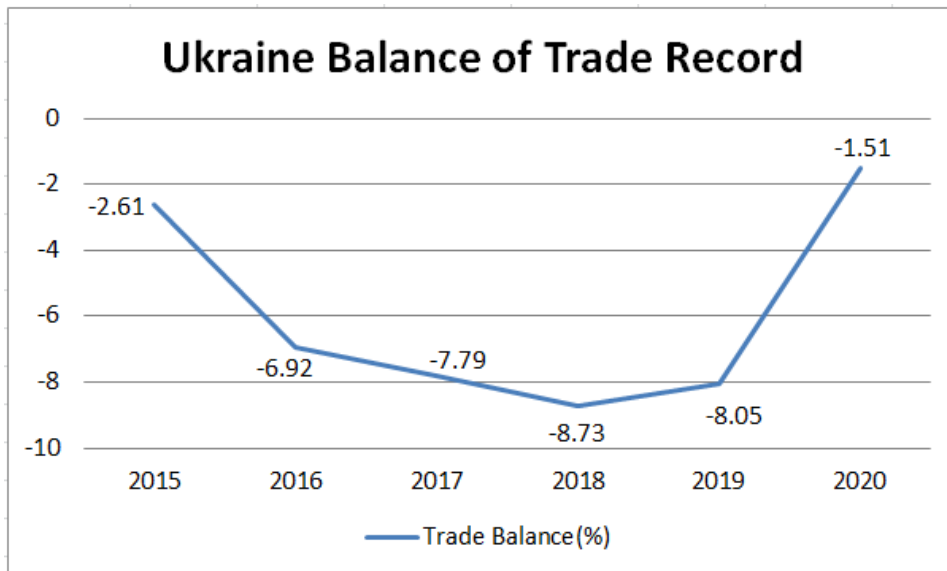


Figure 4. Ukraine's balance of trade record [10]

According to figure 3.1, Ukraine experienced a high level of trade deficits for many years and this situation got worse after 2015 and before 2020, although seemed to have less impact on GDP growth. The long-term trade deficit reveals the problem of Ukraine's economy, which is known as highly dependent on the foreign market, low domestic demand, and geopolitical sensitivity.

The price of resource exports is affected by foreign demand, so Ukraine is unable to ensure profit. In addition, due to the slowdown in economic growth, domestic public confidence is pessimistic and resulting in low domestic demand. Geopolitical sensitivities also lead to investors' uncertainty about Ukraine's future development, so Ukraine has fewer opportunities to obtain capital, which is difficult to offset by actual Ukrainian policies.

Deregulation, lower trade barrier, and tariff control that initiated by WTO may actually harm the industry of Ukraine.



Figure 5. Unemployment rate of Ukraine [9]

After joining the WTO in 2008, Ukraine's unemployment rate remained at a high level and has an increasing trend.



Figure 6. Ukraine-Russian Federation trade record [11]

Similarly, the trade relationship between Ukraine and Russia has maintained a deficit for a long time, partly because the relationship between Ukraine and Russia continues to deteriorate, while Russia continues to impose economic sanctions on Ukraine, including the cancellation of preferential trade. Ukraine has a strong dependence on Russian oil resources, and its exports have become less competitive, which has deepened the trade deficit.

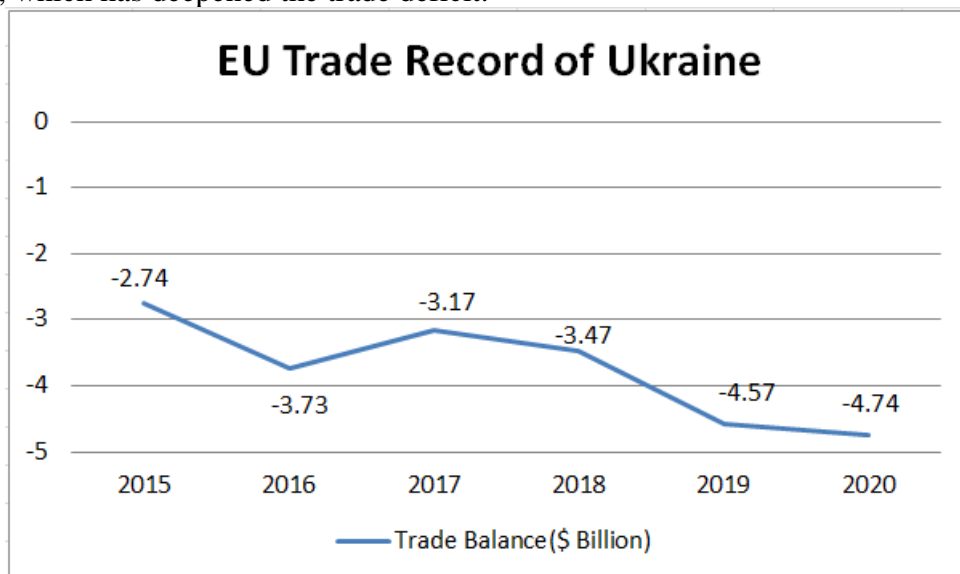


Figure 7. Ukraine-EU trade record [5]

According to figure 7, the trade deficit between Ukraine and the EU is increasing year by year. Due to the signing of the deep and comprehensive free trade area (DCFTA) and the requirements of the WTO for Ukraine to further develop its market, the expansion of free trade has caused an impact on Ukraine's fragile domestic industry. At the same time, due to Ukraine's desire to join the EU, its key industries, such as natural gas, have become a bargaining chip for the EU to buy at a low price, hurting Ukraine's own interests.

It can be seen from the above data that Ukraine's local industries are not able to survive in the external competition, and the move to reduce tariffs actually increases the competitiveness of foreign products. Under the distribution of the market economy system, Ukraine's local industries suffer trauma and even bankruptcy, and on the contrary, foreign products occupy the living space of the domestic market. Due to geopolitical influence, the effect of deregulation is not satisfactory, and even large-scale unemployment is due to unplanned privatization.

Although Ukraine has joined the WTO, it has not benefited from it. On the contrary, it has suffered economic and social losses due to concessions made when accepting regulations that are not in line with the national interests.

5. Conclusion

Based on the above research, the WTO has promoted Ukraine's foreign trade, including the reform of monopoly enterprises, attracting foreign investment, and shaping market vitality. It helps Ukraine integrate with the world economy and integrate into the world trade chain.

However, on the other hand, due to the gradual shift of Ukrainian industry to the market economy, the original enterprises have suffered a strong impact in the competition among foreign powerful large enterprises, which has led to the obstruction of domestic economic growth and caused unemployment and other problems. At the same time, due to the strong desire of the Ukrainian government to join the European Union and the WTO, the mining and agriculture that could have driven economic development had to be sold at low prices, thus damaging its national interests. At the same time, due to geopolitics, Ukraine's own situation is unstable, which limits many opportunities for economic and social development and foreign investment.

The WTO brings benefits to the Ukrainian economy, but more importantly, it hurts the Ukrainian market due to inappropriate conditions. If the Ukrainian government fails to safeguard its interests and formulate plans according to its own industrial characteristics and opens the domestic market excessively and without early planning and reality analysis, the Ukrainian economy will not be improved.

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