

# Self-Sufficiency Versus Dependence on International Trade: The Lessons from COVID-19 for Ukraine



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**T**he COVID-19 pandemic has exposed both the strength and fragility of international trade links. Like other countries, Ukraine has appeared at the crossroad of two trends. On the one hand, in response to panic, Ukraine had imposed several protective measures, e.g. temporarily banning exports of personal protective equipment (PEP) and some food products. On the other hand, Ukraine has been interested in boosting its exports to counterweight the negative economic trends caused by the pandemic. Moreover, the country has badly needed PEP imports.

Currently, it seems that in Ukraine, proponents of international trade openness have been taking over. However, the challenges exposed by the pandemic, including the fragility of reliance on global markets, remain relevant. This article analyzes Ukraine and its partners' crisis responses within the dichotomy of self-sufficiency versus dependence on international markets. We aim to take lessons on how to ensure both smooth trade and stronger internal crisis resilience.

## **WORLD TRADE AMID THE COVID-19 PANDEMIC**

The initial expectations about global trade trends against the background of the COVID-19 pandemic in 2020 were especially disastrous. According to the WTO assessments presented in April 2020, world trade was expected to decline by approximately 13% and 32%, depending on how the situation would evolve<sup>1</sup>. However, despite significant downside risks, international trade appeared to be quite resilient to the shocks.

<sup>1</sup> WTO (2020) *Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy*, Press Release 885. Available [online]: [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)

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IT SEEMS THAT IN UKRAINE, PROPONENTS OF INTERNATIONAL TRADE OPENNESS HAVE BEEN TAKING OVER

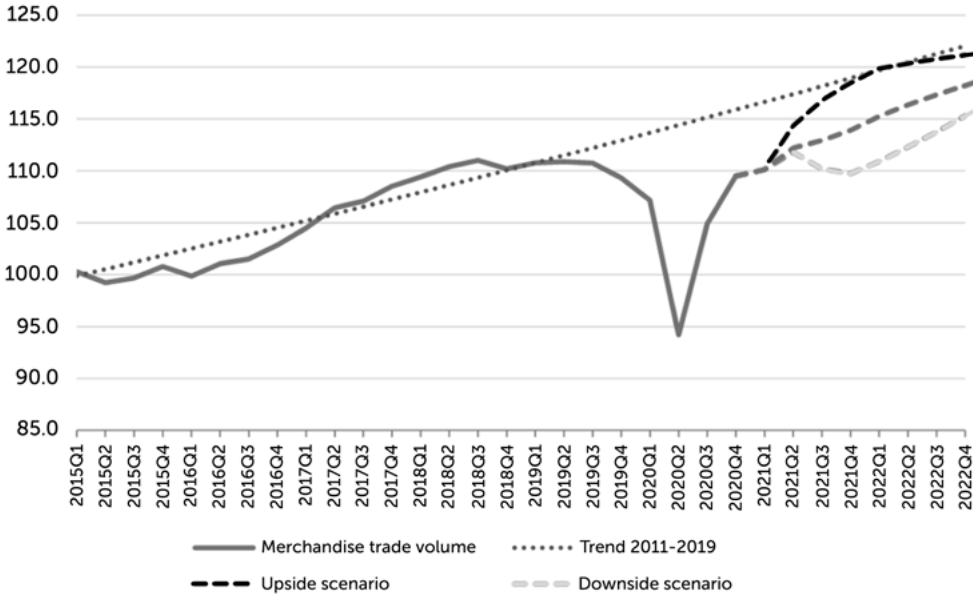
In 2020, world trade reduced by only 5%<sup>2</sup>. According to the WTO, several factors contributed to this better-than-expected trade performance. First, global economic activity and consumption were maintained through strong fiscal and monetary stimulus. Second, households shifted the consumption from non-traded services towards goods to be shipped by expanding delivery services. Third, technologies allowed remote working, thus preventing larger-scale disruptions for many businesses. Fourth, the initial wave of protectionism was constrained and mainly reverted, with many temporary restrictions abolished.

The year 2021 has been the year of recovery. Despite multiple uncertainties, the WTO expects world trade to boost by 8%<sup>3</sup>. Moreover, the United Nations Conference on Trade and Development (UNCTAD) has

<sup>2</sup> WTO (2021) *World Trade Primed for Strong but Uneven Recovery after COVID-19 Pandemic Shock*, Press release No. 876. Available [online]: [https://www.wto.org/english/news\\_e/pres21\\_e/pr876\\_e.htm](https://www.wto.org/english/news_e/pres21_e/pr876_e.htm)

<sup>3</sup> Ibid.

Figure 1: World merchandise trade volume (2015Q1-2022Q4) [Index, 2015Q1 = 100]



Source: WTO (2020) *Trade Set to Plunge as COVID-19 Pandemic Opens Global Economy*, Press Release 885. Available [online]: [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)

already reported a solid rebound in the first quarter of 2021 at above 10% year-on-year<sup>4</sup>.

However, foremost challenges remain. First, the economic and trade recovery has been uneven as the access to vaccines and vaccination campaigns' results have been very mixed around the globe, undermining recovery potential, especially for emerging markets and developing countries<sup>5</sup>. By late

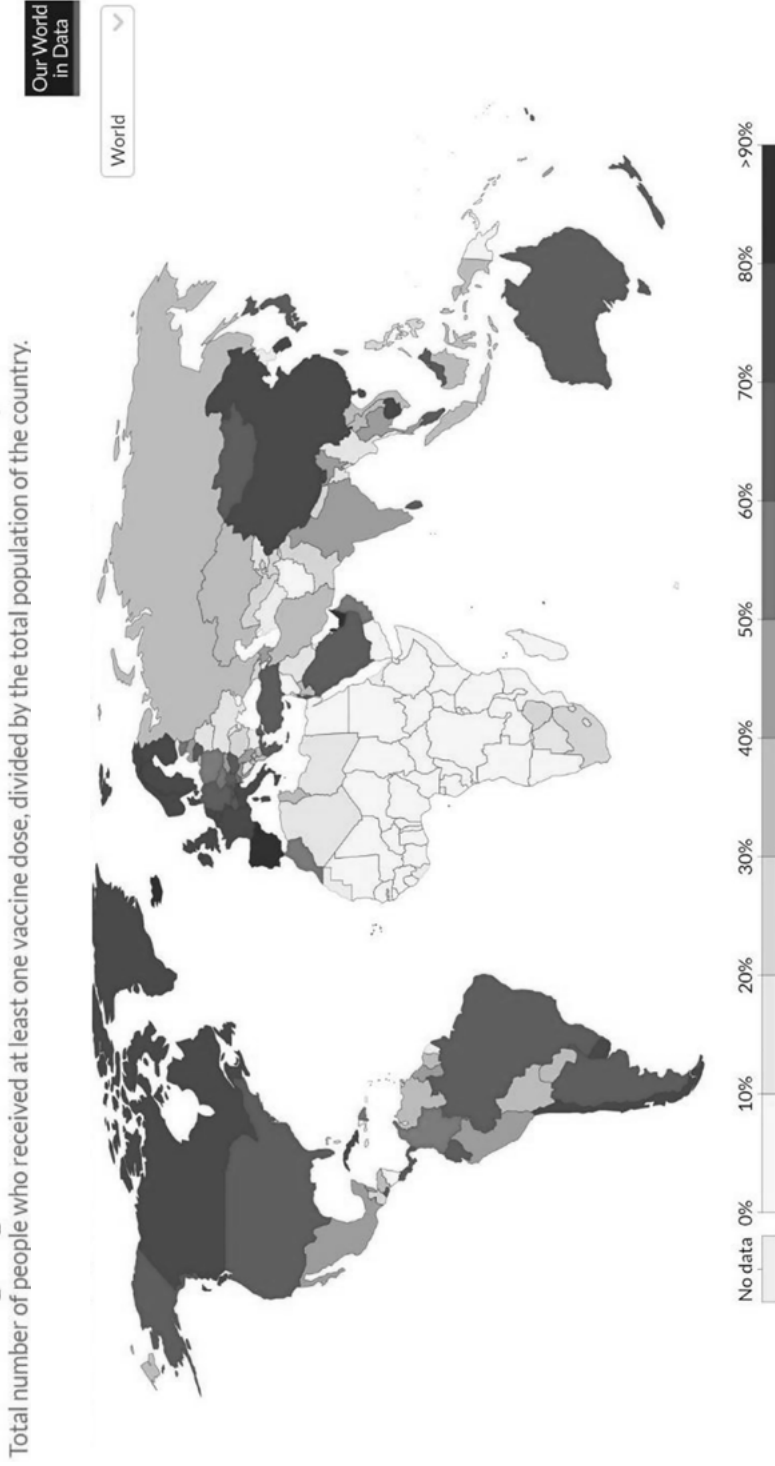
September 2021, over 44% of the world population received at least one dose of a COVID-19 vaccine<sup>6</sup>, but disproportions among countries have been impressive. Even in Europe, the share of people having at least one jab varies from 16% in Ukraine (the lowest) and 28% in Romania to 88% in Portugal. The United States vaccinated about 63% of their population, China – 76%, while the level of vaccination in low-income countries stays only at slightly over 2% [See: Figure 2]. The IMF has already revised its economic forecast for 2021 expecting higher than initially projected growth in the advanced countries and

<sup>4</sup> UNCTAD (2021) "World Trade Rebounds to Record High in Q1 2021", [in]: *Global Trade Update*, May. Available [online]: [https://unctad.org/system/files/official-document/ditcinf2021d2\\_en.pdf](https://unctad.org/system/files/official-document/ditcinf2021d2_en.pdf)

<sup>5</sup> IMF (2021) *Fault Lines Widen in the Global Recovery*. Available [online]: <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

<sup>6</sup> Mathieu, E., Ritchie, H., and E. Ortiz-Ospina, et al. (2021) *A Global Database of COVID-19 Vaccinations*, [in]: *Nat Hum Behav*. Available [online]: <https://our-worldindata.org/covid-vaccinations>

Figure 2: Share of people who received at least one dose of a COVID-19 vaccine (September 25, 2021)



Source: <https://bit.ly/3oaj6WL>

more sluggish recovery of the emerging markets<sup>7</sup>.

Second, continuing transit disruptions result in the rethinking of supply chain architecture, including the shift from *just-in-time*<sup>8</sup> to *just-in-case* inventory management strategies and the potential *reshoring*<sup>9</sup>. The Institute for Supply Management reports that 56% of their respondents now hold more than usual firms' input inventories<sup>10</sup>. The policy study on post-COVID-19 value chains prepared upon the request of the European Parliament explicitly recommends the EU introducing stockpiling obligations for critical goods and creating minimal production capacities for specific critical products, including through targeted reshoring<sup>11</sup>.

Moreover, soaring food prices continue fueling ideas of self-sufficiency as well as *ad-hoc* trade restrictions. According to the Food and Agriculture Organization



## SOARING FOOD PRICES CONTINUE FUELING IDEAS OF SELF-SUFFICIENCY AS WELL AS AD-HOC TRADE RESTRICTIONS

of the United Nations (FAO), the upward food price trend started in mid-2020, amid the pandemic. By August 2021, the FAO Food Price Index was almost 33% higher than a year ago<sup>12</sup>, driven by exceptionally high growth of vegetable oils and cereals prices. In February 2021, Russia introduced export tariff quotes and export duties on grains to curb food price growth<sup>13</sup>. India and Turkey, instead, cut import duties on selected agricultural products<sup>14</sup>.

### AD-HOC TRADE MEASURES APPLIED BY UKRAINE

The Market Access Map database of COVID-19 related measures affecting trade in goods includes over 100 WTO members

<sup>7</sup> IMF (2021) *Fault Lines Widen in the Global Recovery*. Available [online]: <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

<sup>8</sup> A *just-in-time inventory system* means that the company aims receiving the needed components as close as possible to the moment when they are actually needed in the process of manufacturing. That allows reducing storage costs, but makes companies sensitive to supply shocks and disruptions in deliveries. A *just-in-case inventory system* is the opposite. It envisages stockpiling inventories thereby reducing risks at expense of higher storage costs. See: <https://bit.ly/3CQ7H2r>

<sup>9</sup> *Reshoring* is the process of returning the manufacturing back to the company's original country. It is the opposite of offshoring. See: <https://bit.ly/3CQ6AzN>

<sup>10</sup> Reuters (2021) *Despite Disruptions, Supply Chain Professionals Are Optimistic about the Remainder of 2021*. Available [online]: <https://www.reuters.com/supplychain/supply-chain/despite-disruptions-supply-chain-professionals-are-optimistic-about-remainder-2021>

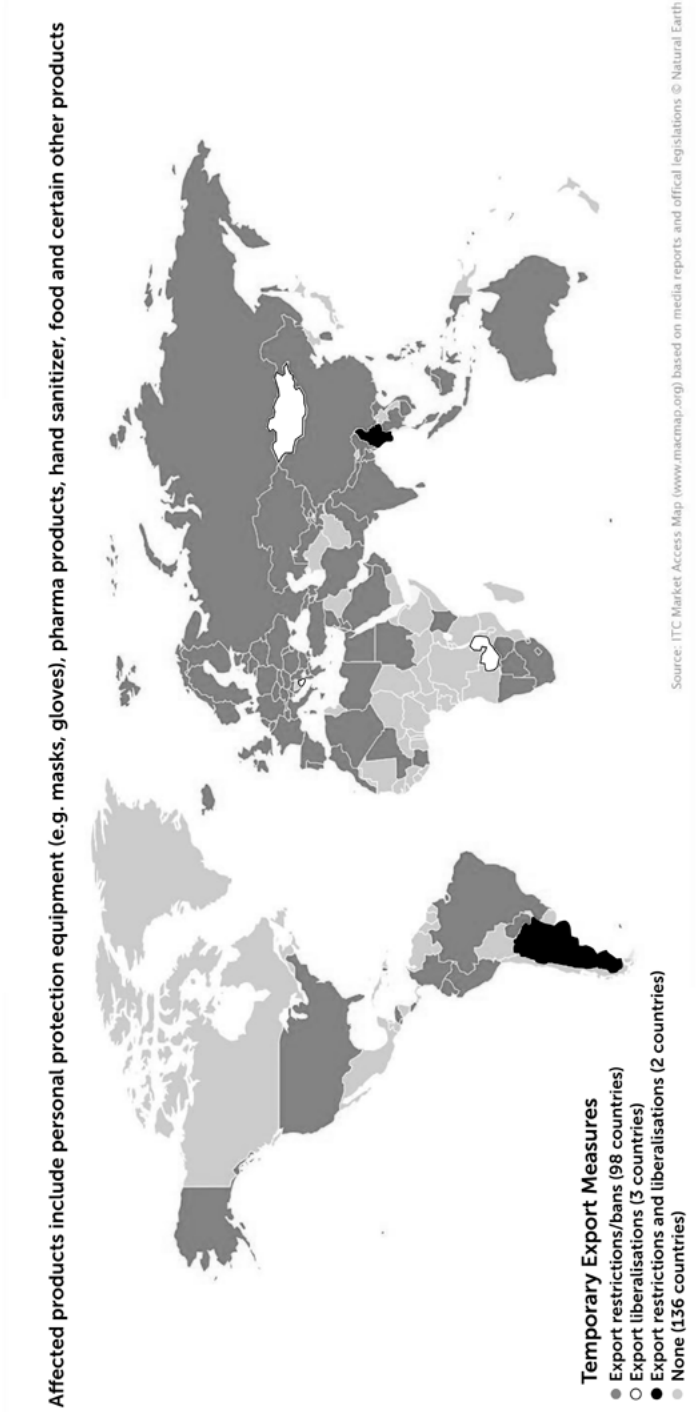
<sup>11</sup> Raza W. et al. (2021) *Post COVID-19 Value Chains: Options for Reshoring Production Back to Europe in a Globalized Economy*. Available [online]: [https://www.eu-roparl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO\\_STU\(2021\)653626\\_EN.pdf](https://www.eu-roparl.europa.eu/RegData/etudes/STUD/2021/653626/EXPO_STU(2021)653626_EN.pdf)

<sup>12</sup> FAO (2021) *FAO Food Price Index*. Available [online]: <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

<sup>13</sup> *Interfax.ru* (2021) "RF Introduces a Grain Export Quota and a Wheat Duty". Available [online]: <https://www.interfax.ru/business/750900>

<sup>14</sup> Sousa de. A. and J. Diamond (2021) "From Turkey to India, Priciest Food Since 1970s Is a big Challenge for Governments", [in]: *Bloomberg*. Available [online]: <https://bit.ly/3m1Z5ze>

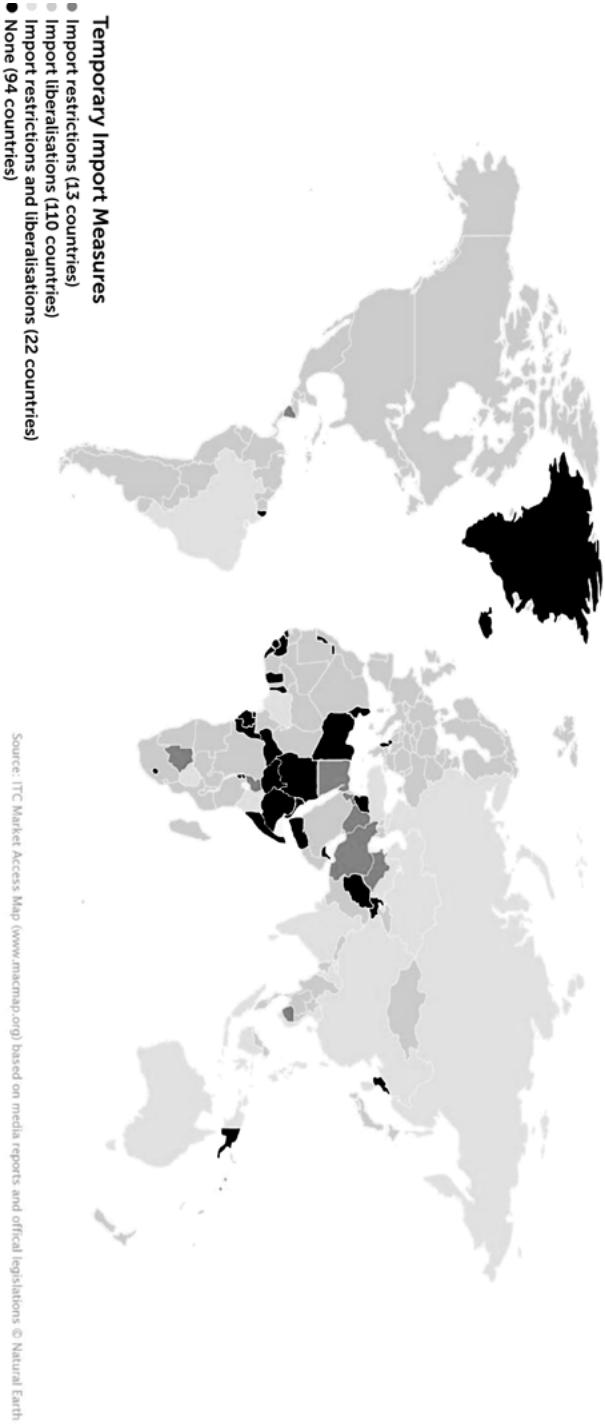
Figure 3: The COVID-19 related temporary export restrictions



Source: <https://www.macmap.org/covid19>

Figure 4: The COVID-19 related temporary import restrictions

Affected products include personal protection equipment (e.g. masks, gloves), pharma products, hand sanitizer, food and certain other products



Source: <https://www.macmap.org/covid19>



## COMPARED TO MANY OTHER COUNTRIES, UKRAINE'S IMMEDIATE TRADE POLICY RESPONSE TO THE CRISIS WAS VERY MODERATE

and observers and 388 decisions<sup>15</sup>. Out of them, 51% are decisions restricting trade, up to bans, while the rest are about trade facilitation.

In both cases, most decisions – to limit and facilitate – concerned food products and health-related goods, including personal protective equipment, pharmaceutical products, and medical devices like oxygen concentrators. Many, although not all, restrictive measures have been repealed later in the year<sup>16</sup>.

For instance, France introduced a temporary prohibition on exports of certain medical products in late March 2020, but the decision was repealed already in May<sup>17</sup>. Slovak Republic imposed the restriction

on exports of medical products for human use and medical devices also in March<sup>18</sup> and terminated it in April<sup>19</sup>. On the contrary, Brazil's prohibition of medical supply products and personal protective equipment exports, introduced in April 2020, has not yet been cancelled<sup>20</sup>. Meanwhile, Poland established the list of medicinal products, foodstuffs for particular nutritional uses, and medical devices threatened by the lack of availability on the territory of the country in April 2020, and has maintained it since then.

Compared to many other countries, Ukraine's immediate trade policy response to the crisis was very moderate. Ukraine has introduced only two temporary restrictions on exports. First, the country temporarily banned the exports of<sup>21</sup>:

- insulated waterproof laboratory suits;
- disposable (single use) insulative medical overalls, gloves of other polymer material;
- nitrile medical gloves, non-sterile, non-starch;
- nitrile non-powdered gloves;
- medical and surgical face masks;
- safety glasses;
- full-face visors;
- respirators with a protection rate of not less than FFP2;

<sup>15</sup> Market Access Map (2021) *Tracking of COVID-19 Temporary Trade Measures*. Available [online]: <https://www.macmap.org/covid19>.

<sup>16</sup> Ibid.

<sup>17</sup> WTO (2021) *COVID-19: Measures Affecting Trade in Goods*. Available [online]: [https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm).

<sup>18</sup> <https://www.noerr.com/en/newsroom/news/slovakia-healthcare-regulations-as-response-to-covid-19-pandemic>.

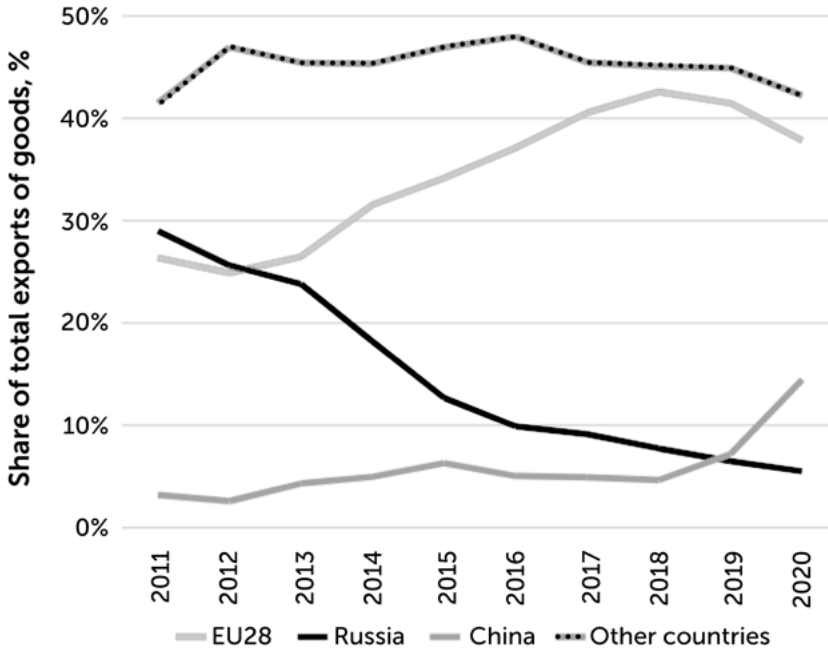
<sup>19</sup> WTO (2021) *COVID-19: Measures Affecting Trade in Goods*. Available [online]: [https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm).

<sup>20</sup> Market Access Map (2021) *Tracking of COVID-19 Temporary Trade Measures*. Available [online]: <https://www.macmap.org/covid19>.

<sup>21</sup> Cabinet of Ministers of Ukraine (2020) *Government Decision on Temporary Restriction of Exports of Anti-Epidemic Goods*. Available [online]: <https://www.me.gov.ua/News/Detail?id=ef2fe920-a5fa-41b4-9981-bc136ed436be&isSpecial=true>.



Figure 5: Ukraine's goods exports geography (2011-2020)



Source: Own calculations based on the State Statistics Service of Ukraine data

- undenatured ethyl alcohol of an alcoholic strength by volume of 80% or higher, and;
- ethyl alcohol and other spirits, except for bioethanol, distilled beverages, denatured, of any strength, and similar.

The decision was driven by the need to ensure domestic supply amid the scandal that the country sold *millions of masks* just before the pandemic reached the country. The ban was initially introduced in March 2020, lasting until June 2020, but prolonged and finally expired in August 2020. The removal of restrictions resulted in an accelerated exports of these products in late 2020, but then the situation stabilized. Overall, Ukraine's exports of medical supplies related to COVID-19 increased by 18% in 2020 despite the restrictions.

Second, the country restricted buckwheat exports<sup>22</sup> to curb the market's panic after several large exporters like Russia and Kazakhstan announced their restrictions. This restriction was quickly removed as well.

In parallel, already in March 2020, Ukraine temporarily eliminated import duties and VAT on imports of medicine, medical goods, and medical equipment needed to fight COVID-19<sup>23</sup>. Unlike export

<sup>22</sup> Cabinet of Ministers of Ukraine (2020) *The Government Has Introduced Quotas on Buckwheat Exports Until July 1, 2020*. Available [online]: <https://www.kmu.gov.ua/news/uryad-vviv-kvotuvannya-na-eksport-grechki-do-1-lipnya-2020-roku>

<sup>23</sup> Law of Ukraine (2020). *On Amendments to Certain Legislative Acts of Ukraine Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)*. Available [online]: <https://zakon.rada.gov.ua/laws/show/530-20/ed20210820#Text>

restrictions, import-related measures have remained in place until now.

### THE ROLE OF INTERNATIONAL TRADE FOR UKRAINE IN 2020

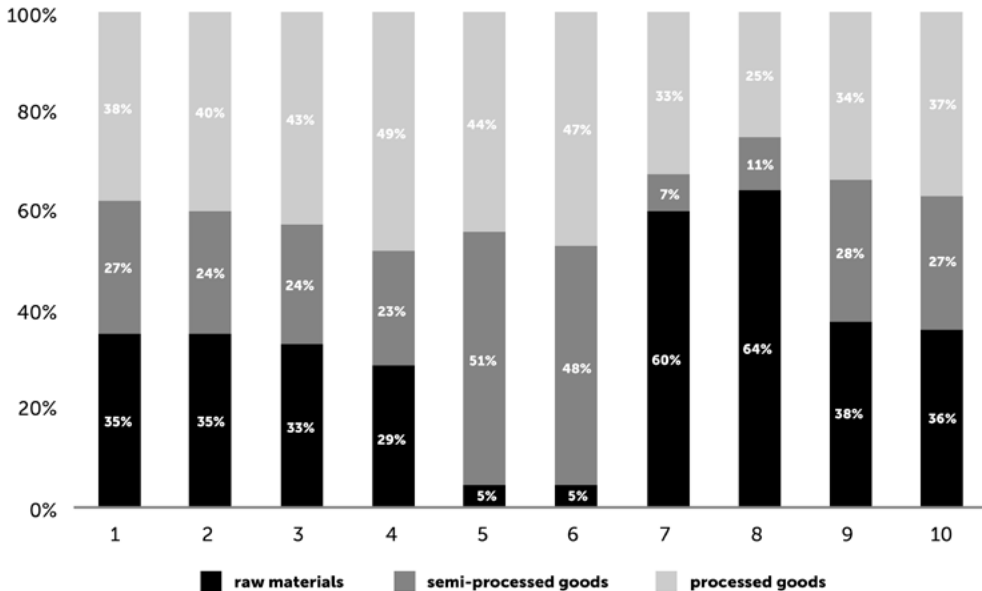
Ukraine is a small, open economy with trade in goods and services accounting for about 100% of GDP. The country relies on international markets for most investment products and mineral energy – including natural gas, oil and petroleum products, nuclear rods, and – after the occupation of Donbas – coal.

On the other hand, Ukraine is a large supplier of agricultural and food products – including cereals and sunflower oil, in the region and globally. Thereby, it makes an essential contribution to global food security.



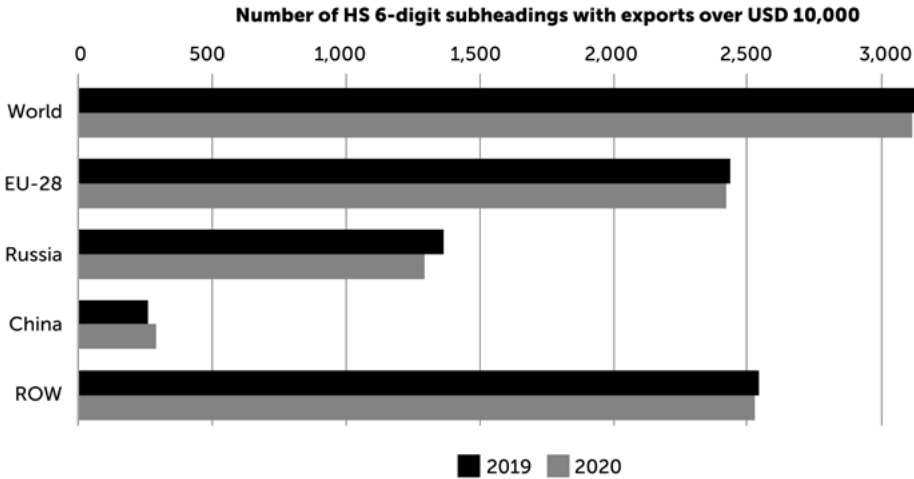
UKRAINE IS A SMALL, OPEN ECONOMY WITH TRADE IN GOODS AND SERVICES ACCOUNTING FOR ABOUT 100% OF GDP

Figure 6: Ukraine's exports of goods by the level of processing



Source: Own calculations based on the following data: State Statistics Service of Ukraine, bi.customs.gov.ua; MTN classification (source: WITS) was used to differentiate goods by level of processing

Figure 7: Variety of Ukraine's exports of goods



Source: Own calculations based on the data by: State Statistics Service of Ukraine, [bi.customs.gov.ua](http://bi.customs.gov.ua); HS at 6-digit level (subheadings)

In 2020, relatively good performance of exports – amid the sharper reduction in imports – allowed maintaining the balance

of payments and contributed to a moderate – by global standards – drop in real GDP. According to the State Statistics Service of Ukraine, in 2020, exports of goods fell by less than 2% compared to the last year and imports of goods reduced by 11%<sup>24</sup>.

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THE RESULT  
OF UKRAINE'S  
EXPORTS  
HIGHLIGHTED  
THE IMPORTANCE  
OF GEOGRAPHIC  
DIVERSIFICATION

The result of Ukraine's exports highlighted the importance of geographic diversification. The exports to the EU, the largest trade partner, dropped by 10% as its economy was hit hard by the pandemic. However, this decline was counterbalanced by soaring exports to China. In 2020, exports of Ukrainian goods to China grew by an impressive 98%. As a result, the share of China in Ukraine's exports doubled to 14%, while the EU's share of total goods exports fell to 38%<sup>25</sup>.

<sup>24</sup> Ukrstat (2021) *Geographic Structure of Ukraine's Foreign Trade in Goods*. Available [online]: [http://ukrstat.gov.ua/operativ/operativ2020/zd/ztt/ztt\\_u/ztt1220\\_ue.xls](http://ukrstat.gov.ua/operativ/operativ2020/zd/ztt/ztt_u/ztt1220_ue.xls)

<sup>25</sup> Ibid.

This change may not be stable, though, as Ukraine ships to China primarily commodities. The share of raw materials in Ukraine's exports to China was 64%. Most of them are iron ores and corn. For comparison, the percentage of raw materials in exports to the EU was 29% in 2020, while the share of processed goods increased to 49% compared to 43% in 2019<sup>26</sup>.

Another significant difference between exports to China and the EU is their variety. Let us consider economically significant export flows (we assume these exports are worth more than USD 10,000<sup>27</sup>). Ukraine's world exports consist of 3,100 tariff lines out of 5,200 at the level of six digits of harmonized trade nomenclature. Ukraine exports to the EU covers more than 2,400 tariff lines (78% of total). Against this background, the supply to China seems impressively narrow at about 300 tariff lines<sup>28</sup>. This means that, despite China's growing importance as a trading partner, supplies to this market are very concentrated and cannot effectively replace supplies to other needs, primarily the EU, which absorbs a broader range of Ukrainian goods.

Still, Ukraine's supplies to the EU market are also quite concentrated. The top ten products, including corn, sunflower oil and seeds, iron ores and selected base metals,

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account for almost half of Ukraine's exports to the EU over the last decade<sup>29</sup>.

In imports, the most significant development of 2020 was the rapid decline in mineral product imports, primarily energy. Due to falling prices and demand, the share of mineral products decreased to 16%. It is the lowest figure in the history of independent

<sup>26</sup> Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *eurointegration.com*. Available [online]: <https://www.eurointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

<sup>27</sup> Assuming last three-year average exchange rate at USD 1.15 per EUR, USD 10,000 is approximately equal to EUR 8,700.

<sup>28</sup> Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *eurointegration.com*. Available [online]: <https://www.eurointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

<sup>29</sup> Own estimates using HS2007 at the level of subheadings (6 digits). Data source: <https://wits.worldbank.org/WITS/WITS/Restricted/Login.aspx>



## UKRAINE'S TRADE POLICY RESPONSE TO THE COVID-19 CRISIS WAS QUITE MODERATE AND VERY TYPICAL DESPITE THE INITIAL SHOCK

Ukraine. The last minimum of 22% was reached in 2016, and the 50% maximum was in 1996 (the earliest available figure)<sup>30</sup>.

Less visible in aggregate data, but still very important, were the imports of personal protective equipment, medical devices, and pharmaceutical products needed to fight the COVID-19 pandemic. In 2020, imports for all types of medical supplies related to the COVID-19 treatment<sup>31</sup> increased by 18%<sup>32</sup>, in a sharp contrast with the decline of overall imports. Some medical product imports grew even stronger. For instance, imports of disinfectants increased by 39%, diagnostic reagents – by 126%, oxygen – by 140%, while oxygen

<sup>30</sup> Movchan, V. (2021) "There Is Less and Less Room for Russia: How the Year of the Pandemic Affected Ukrainian Trade", [in]: *euointegration.com*. Available [online]: <https://www.euointegration.com.ua/articles/2021/03/17/7120886/> [in Ukrainian]

<sup>31</sup> The list of medical supplies related to COVID-19 was established by WITS. Available [online]: <http://wits.worldbank.org/data/public/Covid-19-medical-supplies-HS2017.xlsx>

<sup>32</sup> Own estimates based on the WITS database.

therapy equipment – by 500% compared to a year before.

Noteworthy, Ukraine is a net importer of medical supplies related to the COVID-19 treatment. In 2020, Ukraine exported USD 0.5 billion of these products and imported USD 2.8 billion.

### COVID-19 LESSONS AND OPPORTUNITIES FOR UKRAINE'S TRADE

The coronavirus crisis has put conventional international trade links under stress due to global-scale supply and demand disruptions. In response to the pandemic threats, the countries had closed their borders, restricted internal mobility and usual business routine, and used trade instruments to regulate trade flows, imposing temporary export restrictions and/or reducing import barriers.

Ukraine's trade policy response to the COVID-19 crisis was quite moderate and very typical despite the initial shock.

Like many countries, Ukraine introduced temporary restrictions on exports of selected medical products. The export restrictions were imposed in March 2020 and lifted in August. They appeared sufficient enough to saturate the domestic market and then supply the excess globally.

The second restriction was on sensitive food products, namely buckwheat. However, it was also quickly removed while Ukraine proclaimed its aim to contribute to global food security by ensuring a stable and growing supply of agro-food products, particularly cereals and sunflower oil, in which the country specializes.

Simultaneously, Ukraine has stimulated the imports of medicine, medical goods, and medical equipment needed to fight with

COVID-19 by completely removing import duties and VAT on these products. These changes have remained in force until now.

The COVID-19 pandemic has also demonstrated the importance of trade diversification – both geographic and product – as Ukraine quickly managed to reorient in export flows.

In the future, Ukraine might try to benefit from the *reshoring* and *just-in-case* approaches to inventory management for the EU, offering production and logistic opportunities. But Ukraine is not the only country in the region. Therefore, to use its chance, the location, high-quality, and relatively cheap labor force must complement an attractive investment climate.



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