

## ECONOMIC SCIENCES

### IMPORTS AND EXPORTS OF SERVICES IN UKRAINE

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*Foreign trade in services* means transactions of intangible products and activities between residents and non-residents. The basic rules for foreign trade in services are set in the World Trade Organization General Agreement on Trade in Services (*GATS*). Unlike trade in goods, where the role of intermediaries is quite high, trade in services is generally based on direct economic relations between producer and consumer. Production and consumption of services usually occurs simultaneously, since services can't be stored as goods. Export of services occurs when a resident of one country provides services to individual or company from another country, e.g.: local universities provide special scholarships for international students. Unlike goods, services never cross any physical boundaries. Each industry has its own type of services, e.g: transportation services, construction services, financial services, insurance services, etc.

According to State Statistics Service of Ukraine, Ukraine's trade balance in services increased continuously and reached 8.7 bln USD in 2019 (50.3% increase compared to 2016). In 2019, the biggest partners of Ukraine in trade in services were European Union and Russian Federation (Table 1). Ukraine has also significantly increased trade with USA, Switzerland, Germany and Turkey (Tables 1-4).

Russian Federation remains the largest importer of Ukrainian services. The main trigger of trade growth between Ukraine and EU is Deep and Comprehensive Free Trade Agreement (DCFTA) applied by both parties since 1 January 2016, which means that parties will mutually open their markets for goods and services based on predictable and enforceable trade rules (Tables 2, 3). According to National Bank of Ukraine, Ukraine's shift to EU markets led to loss of Russia's position as Ukraine's largest trading partner among individual countries for the first time in both trade in goods and services in 2019 [1]. At the beginning of 2019, the general trade turnover between Ukraine and Russia dropped to 9.7% of Ukraine's total trade turnover (11.5% in 2018) and continued to fall: -36.3% in 2019 compared to 2018 (Tables 1, 3). On the contrary, exports of Ukrainian services to EU and USA were growing steadily (Table 3).

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Significant increase of imports of services is observed from the EU, especially from Germany (Table 4).

Table 1

### Ukraine key foreign trade partners in services

2019 Export to countries	Export			2019 Import from countries	Import		
	% (Total)	bln, USD	% to 2018		% (Total)	bln, USD	% to 2018
1. Russian Federation	<b>40.6%</b>	6.2	+85%	1. EU	<b>55.4%</b>	3.6	+6%
2. EU	<b>28.2%</b>	4.3	+8%	2. Turkey	<b>9.2%</b>	0.6	+35%
3. USA	<b>7.9%</b>	1.2	+21%	3. USA	<b>7.7%</b>	0.5	+7%
4. Switzerland	6.4%	0.97	+9%	4. Germany	6.9%	0.45	+13%
5. Germany	3.9%	0.6	-1%	5. Russian Federation	4.3%	0.28	-36%
6. Turkey	1.3%	0.2	+9%	6. Switzerland	3%	0.2	-5%
<b>Total exports</b>	100%	15.2	+31%	<b>Total imports</b>	100%	6.5	+3%

Source: State Statistics Service of Ukraine

In 2019, Ukraine's trade balance with key trade partners in services remained positive, except Turkey, which provides 9.2% of total imported services to Ukraine in the fields of traveling and transportation (71.6% and 23.4% from Turkey's total import to Ukraine respectively).

Table 2

### Exports of Ukrainian services to top trade partners after entry into force of DCFTA (mln, USD)

Countries	2016	2017	2018	2019
Russian Federation	3,077.4	3,416.4	3,337	6,182
EU	3,005	3,453	3,980	4,288
USA	717.3	848.2	1,011.7	1,219.3
Switzerland	676.7	757.7	895.3	972.7
Germany	488.4	538.7	591.2	584.3
Turkey	177.3	173.1	178.2	193.7

Source: State Statistics Service of Ukraine

Table 3

**Imports of services from top trade partners after entry  
into force of DCFTA (mln, USD)**

Countries	2016	2017	2018	2019
Russian Federation↓	500	429.3	452.8	<b>288.3</b>
EU↑	2,422	2,533	3,356	3,563.8
USA	693.6	645	461.1	723.8
Switzerland	191.2	219.1	227.5	215.7
Germany↑	364.1	357.8	403	584.3
Turkey↑	288.6	356.8	409.4	553

*Source: State Statistics Service of Ukraine*

Main types of services imported to Ukraine from key trading partners comprised: *transportation services* (Russia, EU, Turkey), *telecommunications services* (Germany, Switzerland), *business services* (USA, Germany, and Switzerland), *traveling services* (EU, Turkey), *government services* (USA), *royalty and IP related services* (EU, Switzerland). There is a high demand in Ukraine for European technologies, triggered by general increase of Ukrainian business contacts in EU and USA. The biggest EU exporters of royalty and IP services to Ukraine in 2019 were: UK (117 mln USD), Ireland (72 mln USD), Luxemburg (61 mln USD), Cyprus (55 mln USD), and Switzerland (44 mln USD). EU has also become the key importer of travel related services, which amounted to 562 mln USD in 2019.

Ukraine's positive trade balance in services reflects increasing role of service sector in domestic economy, as well as its growing impact on the balance of payments. The trade surplus is steadily ensured by transportation services: gas transit from Russian Federation (amounted to 90 bln m<sup>3</sup> in 2019 [2]); railway transportation with EU; sea transportation with Turkey. There is a stable surplus in telecommunications, computer and information services reaching 1.9 bln USD in 2019 (exports to EU). However, despite generally positive indications, Ukraine has negative balance in the following activities: insurance services, travel related services, finance services, royalty and other IP services, business and government services (Table 5). The export potential of construction and travel related services has not been fully realized. Significant deficit is observed in royalty and IP related services, due to sharp decline of industrial production (index of industrial production dropped from 103.1 in 2016 to 91.7 in 2019 [3]) and constant lack of high-tech technologies. Improvements are observed in insurance services, where the difference between imports and exports dropped to 13.4% in 2019. Imports of financial services exceeded exports by 71.7% in 2019, which is mainly caused by

influence of offshore financial centers. There is a constant deficit of state and government services, which are imported mainly from the USA (43.1% of USA exports to Ukraine in 2019). The overall balance of trade in material processing services has decreased since 2017 due to significant decline of exports to Russian Federation (-48.3% in 2019 compared to 2018, -6% in 2018 compared to 2017) and general decrease of economic activity in Ukraine.

Table 4

**Trade balance of Ukraine in different types of services (mln, USD)**

Types	2016	2017	2018	2019
Material processing services	1,112	4,541.6	2,081.5	1,625.8
Transportation services	4,144.6	1,389.4	4,444	7,527
Travel related services	-353.5	-525	-692.8	-961
Construction services	233.5	-9.8	89.3	62.4
Insurance services	-66.6	-87.8	-33.5	-11.7
Finance services	-476.6	-349.2	-359.3	-331.9
Royalty and other services related to intellectual property	-283.3	-367.5	-431.4	-491.8
Telecommunications, computer and information services	1,159.2	1,289.8	1,582	1,937.3
Business services	-20.9	74.9	-214.8	-90.8
Services for individuals, cultural and recreational services	4,354	-5.5	-1.6	7.9
State and government services	-1,259.3	-1,032.5	-584.7	-717.3
<b>Total</b>	<b>4,326.7</b>	<b>5,087.4</b>	<b>6,048.6</b>	<b>8,709.6</b>

Source: State Statistics Service of Ukraine

Overall, domestic economy is oriented to European markets and the general trend is positive. Ukraine's trade in services is on the stage of recovery due to imbalances caused by loss of facilities and recreation zones in the Crimea peninsula, destruction of infrastructure on the East of the country, increased spending on defense, and economic slowdown, which affected exports of business services.

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## **THE DIRECTIONS OF STIMULATING INNOVATIVE ACTIVITIES**

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The innovative type of development is one of the priority assignments that determine the strategic goal of the national scientific and technological and innovative policy – favourable conditions creation for innovative activities, constant improvement of technological level of production and products competitiveness, population's life quality improvement, national security strengthening. An objective reflection of the global trend is the fact that the importance of regional authorities in the innovative activities development has recently increased, which raises the need for of innovative policy improvement at all management levels. Herewith, the intellectual services sector, which includes financial, business, communication services (including R&D and software development), as well as non-commercial services in the field of education and health, is developing with a clear lead. Due to the internationalization of high-tech production, its international base extension, TNCs expansion, deepening the international specialization and diversification of geographical production, the global economy has a tendency to increase high-tech export [1].

Most countries with high levels of innovative activities in the last decade have been characterized by the shift from direct public investment to stimulating business participation in R&D funding. Thus, the principle is being implemented in the EU countries: the greater the commercial return of scientific research and development realization, the greater is the share of private business financial participation. The state is involved in the financing and conducting the scientific researches in the private sector by sponsoring basic and applied research carried out in public laboratories, universities and innovation centres at enterprises, and specially created consortia. Government investments in applied researches significantly reduce companies' costs for

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