



How to increase and diversify Ukrainian exports to the United Arab Emirates?

Executive Summary

The United Arab Emirates (UAE) is one of the focus markets identified by the Export Strategy of Ukraine (Strategic Trade Development Roadmap) for 2017-2021. The country is one of the top-20 exporters and trade centers in the Gulf region and worldwide. Although trade volumes between Ukraine and the UAE are currently relatively low compared to Ukraine's traditional partners, increasing cooperation with the UAE is very important in terms of expanding Ukraine's export diversification and penetration of Ukrainian goods and services in the Gulf region and global markets.

Total trade in goods and services between Ukraine and the UAE grew by 24% in 2018 compared to the previous year – up to nearly \$960 million. Exports of goods from Ukraine to the UAE far exceed imports of goods to Ukraine from the UAE (\$486 vs \$79 million in 2018, respectively). Currently, Ukraine's main export groups to the UAE include metal products, sunflower oil, rapeseed, engines and gas turbines, bird eggs, poultry, etc. However, the structure of Ukrainian export to the UAE is still rather concentrated, and Ukraine does not supply to the UAE many products where it has comparative advantage (58%).

Trade in services is an important part of bilateral trade between Ukraine and the UAE. In particular, Ukraine's exports of services to the UAE reached \$257 million in 2018 (or 35% of its total exports of goods and services to the UAE), and imports of services equaled \$146 million (65% of total imports from the UAE). Transport services account for 85% of total exports of services from Ukraine to the UAE. Air transport services and repair and maintenance services recorded the fastest growth during the recent years. Further growth of merchandise trade between Ukraine and the UAE is expected to be followed by the increase in trade in insurance and business services, repair and maintenance, which is a promising area of cooperation for Ukrainian companies.

The UAE trade regime is generally open, with rather low import duties (with the exception of alcohol and tobacco products). The UAE is a member of a Customs Union of the Gulf Cooperation Council (GCC). Trade relations with Ukraine are regulated by the legislation that is common for all the member states of this block. Moreover, there is a number of free economic zones in the UAE allowing duty-free exports to the UAE, with the possibility of further re-export to regional and global markets.



Despite the favorable customs regime, the UAE applies a range of specific requirements and non-tariff measures. Ukrainian exporters note the restrictive impact of the following measures when trading with the UAE: customs inspection and clearance procedures, requirements in the field of sanitary and phytosanitary control, technical regulation, as well as the legalization of import documents, etc¹. In addition, Ukrainian exporters should take into account ongoing changes of UAE import requirements due to adoption of new legislation at national and GCC level and development of technical regulations and sanitary and phytosanitary measures.

Methodologically, the prospective goods for Ukrainian exports to the UAE are identified according to several requirements: 1) presence of revealed comparative advantages (RSA) in this product in Ukraine and absence of RSA - in the UAE; 2) presence of a significant potential for increasing exports to the UAE market based on the assessment of the gap between current and potential export volumes, or “undertrade”. In line with this methodology, undertrade was estimated for a broad list of product groups, as well as separately for priority sectors, defined as such by the Export Strategy of Ukraine. The analysis is based on UN Comtrade data for 2017 at HS4 level.

The gravity model employed in this research estimates the difference between actual and potential trade volumes between Ukraine and the UAE at \$413 million in 2017 - that is, it exceeds actual exports from Ukraine to the UAE in the same year (US \$385 million).

This research identifies those sectors of the UAE economy that are the most dependent on imported goods and materials and where Ukrainian manufacturers can integrate into value chains:

- food and beverages
- petroleum, chemical and non-metallic mineral products
- metal products
- electrical machinery and equipment
- transport equipment
- textiles and clothing
- wood and paper.

Also, in accordance with our methodology (consisting of revealed comparative advantages and undertrade, estimated by the gravity model), the study suggests the list

¹ <http://www.me.gov.ua/Documents/Print?lang=uk-UA&id=f3eddf2f-c437-4f9f-ac3e-d00aa55ad2e2>



of 135 product groups at HS4 level, defined as being promising for Ukrainian exports to the UAE. For these product groups, the estimated insufficient trading volumes (the undertrade) amounted to \$73 million, while actual exports of these goods amounted to \$9 million in the same period (thus, the undertrade far exceeded the actual export volumes for these items). This is because about 70% of these goods Ukraine did not supply to the UAE in 2017 at all.

In particular, the largest volumes of undertrade were observed for machinery and electrical equipment and amounted to \$15 million. Ore and mineral products accounted for \$10 million of the total undertrade, metals and textiles - \$8 million each, vegetable products - \$6.5 million, furniture - \$5.8 million, food products - \$3.6 million.

At the HS4 level, the following products have the largest volumes of undertrade:

- furniture for seats (9401),
- insulated wires, cables and other electrical conductors (8544),
- electric water heaters, electric heaters, hairdressers, hand dryers, irons (8516),
- other engines and motors (for example, jet, hydraulic, pneumatic power) (8412),
- equipment for sorting, sifting, etc. of soil, stones, ores; equipment for agglomeration, molding or casting of solid mineral fuels, ceramic pastes, hardened cement, gypsum materials (8474),
- ferroalloys (7202),
- flat carbon steel of a width of 600 mm or more, clad, with electroplating or other coating (7210),
- flat rolled metal of other alloy steels of 600 mm or more width (7225),
- titanium and related products (8108),
- suits, sets, jackets, trousers, overalls, straps, breeches and shorts, for men or boys (6203),
- men's outerwear (6201),
- furnishings (for example, sheets) (6304),
- sacks and packages (6305),
- soybean (1201),
- barley (1003),
- sunflower seeds (1206),
- fruits and nuts, fresh, cooked or frozen (0811).

In addition, the study identifies a separate narrower list of promising products that fall within the sectors identified in the Export Strategy of Ukraine – this list encompasses 38 products. The total undertrade for this list was estimated at \$33 million compared to \$1.5 million exports of these products to the UAE in 2017. Such a low level of actual



exports can be explained by the fact that most of these products were not supplied by Ukraine to the UAE in 2017. Therefore, there is a potential to increase and diversify exports to the UAE with these products. Compared to the total exports of goods from Ukraine to the UAE in 2017 (\$385 million), the potential for export increase in terms of the promising products under the Export Strategy was 8%.

To sum up, Ukraine has the potential to increase trade in both goods already exported to the UAE as well as goods not yet supplied by Ukrainian companies to this market. The significant undertrade between Ukraine the UAE can be explained, for instance, by the negative effects of various tariff and non-tariff barriers, as well as the UAE's specific import requirements (legalization of import documents, Halal certification) or other factors, such as low competitiveness (in terms of price or quality) of Ukrainian goods compared to similar goods supplied by other countries, taste preferences of the UAE consumers, insufficient awareness of Ukrainian producers about the peculiarities of entering and working in the UAE market, etc.

Based on the results of our qualitative and quantitative research, the relevant public authorities are recommended to:

- Harmonise Ukrainian legislation, standards and practice with the EU legislation, standards and practice effectively and in time, in line with the action plan and the commitments made by Ukraine under the DCFTA within the framework of the Association Agreement with the EU, in particular in such areas as technical barriers to trade, sanitary and phytosanitary measures, customs, protection of intellectual property rights, etc.
- Consider the unutilised export opportunities (undertrade) for the identified promising products in order to increase and diversify Ukrainian exports to the UAE. Conduct detailed analysis of non-tariff barriers affecting the identified promising products at the UAE market. Prioritize the steps for reducing trade barriers for promising products – within domestic policies and during negotiations with the UAE and other Gulf Cooperation Council members.
- Given insufficient information about the UAE market, low awareness in Ukraine about the UAE market access requirements for certain goods and services, consumer demand and preferences, etc., inform Ukrainian exporters about the identified promising products for exporting to the UAE market, prepare and distribute other relevant materials and conduct training for exporters interested in working in this market.
- Build and maintain regular contacts at the state level between Ukraine and the UAE in order to enhance economic cooperation, given the importance of personal relationships for doing business in the UAE.



Ukrainian producers and exporters are in turn recommended to:

- Consider those sectors of the UAE economy, most heavily dependent on imported inputs (Table 2. Measures of UAE's openness to foreign trade).
- Take into account the most promising goods for the Ukrainian exports to the UAE (Table 4. Top 30 Promising products at the HS4 level of Ukrainian Exports to the UAE, 2017; Table C1. List of promising Ukrainian Exports to the UAE in terms of export growth).
- Review pricing policies to enhance competitiveness of the identified promising products (Table 6. Value analysis of the promising products of Ukrainian exports to the UAE).
- Get acquainted with the list of goods that are re-exported from the UAE. Investigate the possibility of increasing supplies to the UAE for further re-exporting and penetrating other regional and world markets (Annex D. Table D1. Re-export of goods from the UAE).
- Before planning the exporting activity, get acquainted with the peculiarities of working in the UAE market, tastes and preferences of the UAE consumers, market access requirements for goods and services, doing business in the UAE, etc.