



Ukraine: Reconstructing International Trade



UKRAINE

Research

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PMC RC stands firmly with Ukraine, supports its sovereignty and territorial integrity, and condemns Russia's ongoing military aggression. We continue to maintain our long-standing commitment to support Ukraine's democratic and economic progress.

Russia's ongoing war in Ukraine is leaving in its wake a trail of devastating consequences, both in terms of human lives and material destruction. However, from the despair comes an opportunity to reshape and modernize Ukraine's economy, through the construction of modern and efficient infrastructure. By investing in this area, the achievement of Ukraine's political and economic objectives can converge to a remarkable degree, allowing it to foster closer connections with Europe. With that in mind, to support the transport and logistics sector sufficiently over the next decade, substantial financing, prioritization, and coordination will be required on the part of the Ukrainian government, international actors, multilateral institutions, and private sector entities¹.

In this bulletin, we overview the infrastructural losses Ukraine has suffered from the war so far, the plan for rebuilding the country's trade infrastructure, the dynamics of Ukraine's international trade, the facilitation of exports, and the strengthening of the country's economic resilience with the assistance of external actors.

| The estimated loss of transport infrastructure (24 February 2022 - 24 February 2023) | | |
|---|------------------------------|---|
| Type of transport infrastructure | Estimated loss (billion USD) | Description of loss |
| Total transport infrastructure | 36.2 | |
| Road infrastructure | 29.3 | A total of 25.1 km of roads and 344 bridges and/or bridge crossings of state (local or municipal) importance were damaged. |
| Railway infrastructure | 4.3 | The total length of damaged railway track reached 507 km, while the number of damaged railway stations amounted to 126, of which more than 53 were in government-controlled areas. In addition, more than 700 km of railway track is now located on territory occupied by Russian forces. |
| Aviation infrastructure | 2.1 | Nineteen out of 35 airfields were damaged, including 12 civilian and 7 dual-purpose (excluding military airfields). |
| Port infrastructure | 0.5 | Includes both seaport infrastructure and inland waterway transport facilities damaged because of the war. |

Source: Kyev School of Economics

Infrastructure facilities have been ravaged in Ukraine since launched its full-scale war on the country. From an economic viewpoint, it is crucial to outline the war's impact on Ukraine's transport infrastructure, given its significant role within the international trade network.

Based on the analysis of the Kyiv School of Economics², in the first year of the war (24 February 2022 - 24 February 2023), the total loss of transport infrastructure in Ukraine amounted to USD 36.2 billion, of which 73.7% was attributed to road infrastructure (USD 26.7 billion). Meanwhile, the cost of the damage and destruction of bridges and bridge crossings was estimated at USD 2.6 billion, while the corresponding figure for railway infrastructure stood at USD 4.3 billion, followed by aviation infrastructure (USD 2.1 billion) and port infrastructure (USD 496 million).

According to the updated Ukraine recovery and reconstruction needs assessment by World Bank³, the cost of reconstruction and recovery is expected to stretch over 10 years and takes into account both public and private funds. It states that for total reconstruction and recovery to be realized more than USD 411 billion will be required, with the greatest need (by the amount of money) in transport (USD 92 billion - about 22% of the total estimate). The reconstruction costs are especially high on account of various factors including inflation, market conditions, a surge in prices in construction, higher insurance premiums, and, most importantly, a shift toward more resilient, inclusive, and modern design, with lower energy intensity.

The timeframe of the recovery however will depend largely on the availability of finances, the absorptive boundaries of the Ukrainian budget, implementation capacity, coordination among stakeholders, private sector support, resource availability, and the war's trajectory/outcome.

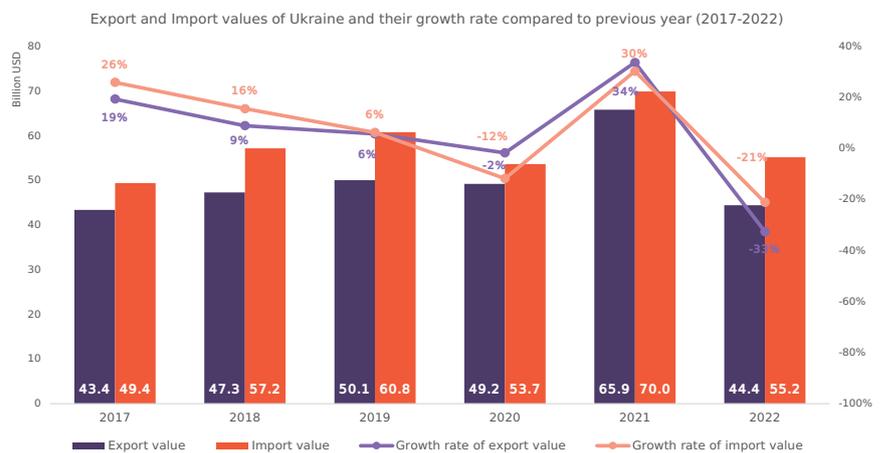
Notably, according to the Ukraine's National Recovery Plan⁴ the immediate priorities of the transport and logistics sector included "de-bottlenecking" its links with the European Union by constructing new railways, expanding the capacity of roads, and restructuring the Danube ports to handle exports to Europe. Meanwhile, projects earmarked for the longer term included increasing port capacity on the River Danube, building new logistics and warehouse complexes, constructing new highways and airports, and developing a high-speed railway connecting Warsaw with Kyiv, which would require considerable collaboration with Ukraine's neighbors—especially Romania, which controls the Danube Delta, a logical transit route.

According to Ukraine's recovery and reconstruction needs assessment, the priority investments for 2023 amount to an estimated USD 14 billion, of which 25% is attributed to transport infrastructure (USD 3.5 billion), followed by commerce and industrial private sector development (15% of total priority needed investments - USD 2.1 billion) both of which are crucial to the reconstruction of Ukraine's international trade.

As the nation rebuilds its infrastructure and works toward economic recovery in general, there are some significant challenges but also some opportunities, specifically in reshaping its trade relationships and repositioning itself on the international market. In this context, reviewing the international trade dynamics of Ukraine since the beginning of the war is valuable to reach a better understanding of the current situation and the extent of the war's impact on Ukraine's international trade.

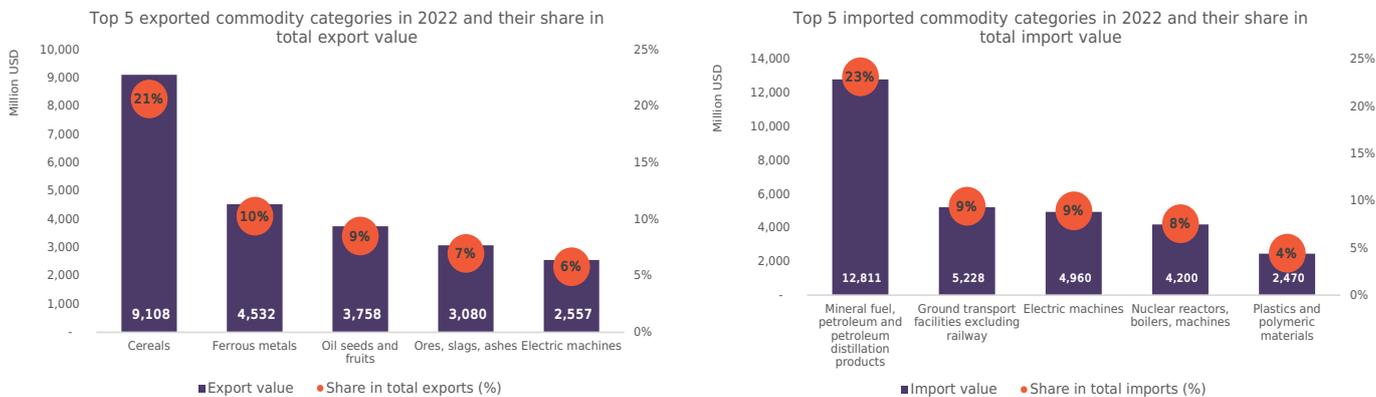
After a significant increase in international trade (both exports and imports) of Ukraine in 2021, since the beginning of Russia's full-scale war in Ukraine, in 2022 exports declined by 33%, while the decline in value of imports was equal to 21%. Within the same period, the trade deficit of Ukraine also increased significantly, from USD 4.1 billion to USD 10.8 billion.

Notably, according to the World Trade Organization⁵, the decline in exports was relatively consistent across Ukraine's trade partners.



An overview of the commodity structure of Ukraine's international trade reveals a notable shift in both import and export patterns. Among exported commodities, cereals assume first place with 21% of total exports from Ukraine in 2022, however, the value of such exports dropped by 26% compared to 2021. Notably, despite the substantial contraction of the exports of agricultural products (including cereals) immediately after the invasion, the exports of grains partially recovered in the main export season due to the introduction of the Black Sea Grain Initiative, which specifically enabled commercial food and fertilizer exports from three key Ukrainian ports in the Black Sea. The initiative was signed in July 2022 and according to the United Nations Conference on Trade and Development (UNCTAD), more than 23 million tons of grains had been exported from Ukraine due to this initiative by March 2023. In particular, corn and wheat, among the world's most used food staples, made up 77% of total shipped cargo under this initiative. The Black Sea Grain Initiative has improved both consistency and predictability and has helped to mitigate price shocks in the international market and facilitate a steady food supply. However, it must also be noted that exports from Ukraine have not yet recovered fully to the pre-war volumes⁶.

In addition, exports of ferrous metals amounted to 10% of Ukraine's total exports in 2022, however, their value was well below (68% lower) the corresponding figure in 2021. Exports of oil seeds and fruits contributed to 9% of total exports in 2022 and even exceeded the pre-war volumes by 54%. On the other hand, exports of ore, slag, and ash were well below the pre-war values, and amounted to only 43% of the corresponding export value in 2021, despite being among the top five exported products. Similarly, exports of electric machines were lower than the pre-war export value and amounted to 81% of exports of electric machines in 2021.



Source: Statistics Office of Ukraine

The top imported commodities in Ukraine in 2022 were fuels, which contributed to 23% of the total import value, and equated to 89% of the corresponding import value in 2021. The second most imported category was ground transport facilities (9% of total import value), which amounted to 74% of the corresponding figure in 2021, followed by electric machines (9%), which reached 80% of its pre-war (2021) import volume.

The implementation of initiatives such as the Black Sea Grain Initiative and the Solidarity Lanes Initiative, coupled with the prompt repair actions taken by Ukraine's transport sector institutions, have partially mitigated losses within the transport, logistics, and trade sector. The Solidarity Lanes Initiative, which created essential corridors for Ukraine's agricultural exports, as well as allowing for the export and import of other goods, has played a crucial role in enabling the transportation of Ukrainian non-grain goods⁷, such as steel, manufactured products, and ore, as well as the import of essential resources like fuel and humanitarian aid via westward logistics chains within the European Union. Between May 2022 and the end of January 2023, trade conducted through the Solidarity Lanes is estimated to have reached a total value of around EUR 65 billion.

According to World Bank projections, in the year 2023, ongoing challenges are anticipated for exports, primarily due to diminished harvests and logistical issues. On the other hand, imports are predicted to increase due to rising demand for energy and equipment. Generally, looking ahead, the medium-term outlook suggests a substantial current account deficit, driven by constrained exports and the significant import requirements to drive reconstruction efforts.

The following table summarizes the recommendations issued by different international institutions for Ukraine to accelerate its recovery and unlock its untapped potential with regard to international trade, which had not been fully realized even prior to the war⁸.

| | |
|---|---|
| Reform trade and investment policies | This may include pursuing EU-Ukraine Association Agreement opportunities, joining EU sectoral initiatives (such as the EU Digital Single Market and EU Green Deal), concluding additional free trade agreements (FTAs) with key EU trade partners, including countries in the Mediterranean region (Morocco, Tunisia, and Algeria), and exploring FTAs with other promising partners like South Korea, India, and Indonesia. In addition, fundamental reforms could be completed related to the rule of law and property rights protection to attract FDI and promote long-term growth. The prospect of EU membership can also serve as a guiding light in Ukraine's reform process, helping to navigate through potential internal conflicts and ensuring adherence to EU norms. |
| Focus on attracting FDI inflows in sectors with high trade potential | Strikingly, sectors including agriculture and food have managed to maintain global competitiveness and have appeared resilient to security shocks. In addition, metal production, which was among Ukraine's main strengths until the extensive devastation of its existing facilities, is an attractive sector due to the available resources and well-trained labor force. Elsewhere, innovation in the production of medical devices and pharmaceutical products has accelerated throughout the war, making this area more attractive to potential investors. |
| Development of high-quality transport infrastructure | The Ukrainian transport network, especially railroad, carries over various relics from the Soviet era, some of which will need to be removed after the war if the country is to modernize. In particular, a review of local transport infrastructure through the creation of modern, efficient, and safer mobility would ensure the sustainable development of the transport and logistics sector, which will be essential if Ukraine is to recover in terms of international trade. |
| Strengthening transport and logistics connections with the EU | East-west connectivity within the country will need to be improved, which will likely require the construction of new rail links. Involvement in the Connectivity Europe Facility Program, creates opportunities for Ukraine to increase its connections, including in transportation, and to facilitate the integration of Ukraine within the EU single market. |

In conclusion, the ongoing war in Ukraine, though tragic and devastating, nevertheless presents an opportunity to reshape and modernize the country's economy. By investing in modern and efficient infrastructure, and implementing reforms in international trade, Ukraine can achieve political and economic objectives while strengthening its ties with Europe. However, the successful implementation of these plans will require substantial financing, prioritization, and coordination on the part of various stakeholders including the Ukrainian government, international actors, multilateral institutions, and the private sector entities.

Footnotes:

1 Center for Strategic and International Studies (CSIS) - Modernizing Ukraine's Transport and Logistics Infrastructure (October 2022) - <https://www.csis.org/analysis/modernizing-ukraines-transport-and-logistics-infrastructure>
2 KSE Institute - Report on Damages to Infrastructure Caused by Russia's War against Ukraine One Year after the Start of the Full-Scale Invasion (March 2023) - https://kse.ua/wp-content/uploads/2023/03/ENG_FINAL_Damages-Report_.pdf
3 The Government of Ukraine, the World Bank Group, the European Commission, and the United Nations - Ukraine Rapid Damage and Needs Assessment: February 2022 (February 2023) - <https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment>
4 Ukraine's National Recovery Plan - <https://recovery.gov.ua/en>
5 World Trade Organization - One year of war in Ukraine: Assessing the impact on global trade and development (February 2023) - https://www.wto.org/english/res_e/booksp_e/oneyukr_e.pdf
6 <https://unctad.org/publication/trade-hope-impact-black-sea-grain-initiative>
7 https://ec.europa.eu/commission/presscorner/detail/en/statement_22_6825
8 The sources of the recommendations are aggregated within the table and include the key points from the following reports: CEPR - Rebuilding Ukraine: Principles and policies (2022) - https://cepr.org/system/files/publication-files/178114-paris_report_1_rebuilding_ukraine_principles_and_policies.pdf; The World Bank - The Impact of the War in Ukraine on Global Trade and Investment (2022) - <https://documents1.worldbank.org/curated/en/099750104252216595/pdf/IDU0008eed66007300452c0beb208e8903183c39.pdf>; European Commission Briefs on Mobility and Transport - https://transport.ec.europa.eu/news-events/news/european-commission-further-integrates-ukraine-eu-single-market-through-connecting-europe-facility-2023-06-06_en; OECD - Architecture of Infrastructure Recovery in Ukraine (2022) - <https://www.oecd.org/ukraine-hub/policy-responses/es-the-architecture-of-infrastructure-recovery-in-ukraine-d768a2e4/>



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