

THE ASSESSMENT OF THE TRANSITION EFFECTS TOWARDS A MARKET ECONOMY. THE CASE OF UKRAINE, BELARUS AND THE REPUBLIC OF MOLDOVA

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Abstract

The '90s have been a very difficult decade especially for the states that have been part of the former Soviet Union for more than half of century. Countries like Ukraine, Belarus or the Republic of Moldova had to face new challenges and realities and to adapt to the market economy, a concept unknown in a communist world. The transition from a state-controlled economy to a liberal and market oriented one was tough in more ways than one. Underlining the most important challenges that these countries had to face in order to be able to compete on the international market, we assess the impact of the regional economic integration structures upon their position on the international economic arena. Using variables such as Gross Domestic Product, Foreign Direct Investments, trade balance structure and the Human Development Index we demonstrate that although it has been more than 30 years since the communism fell, these three states have still a long road ahead of them if they want to be players on a highly competitive market. Through a parallel study of the Deep and Comprehensive Free Trade Area Agreement and the Eurasian Economic Union we will demonstrate that the advantages of the heavy industry, energy resources or the agricultural products have started to lose ground on a market where digitalization dictates most of the trade agreements and foreign investments.

Keywords: regional economic integration, market economy, transition, trade agreements, trade structure

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Introduction

At the beginning of 1991, the Soviet Union was the largest country in the world, covering 22,4 million square kilometers, with a population of more than 290 million inhabitants and 100 distinct nationalities. By the end of 1991 the Soviet Union ceased to exist, leaving behind not only the former soviet republics, which were now independent states, but also a void of power both economically and politically.

Shortly after the dissolution of the Soviet Union, Russia had taken upon itself the role of filling that void. Unwilling to lose the influence on the Eastern Europe and Central Asia, at the beginning of December, 1991, the Commonwealth of Independent States (CIS) was formed by Russia, Belarus and Ukraine through signing of Belavezha Accords. By the end of December, 1991, eight other former Soviet Republics adhered through the Alma-Ata Protocol.

The Charter of the CIS was signed in 1993, the same year that Georgia became a member, thus bringing the total number of members to 12. Aside from the Baltic States, all other Soviet Republic were members of this new organization under Russia's lead.

The years that followed after the '90s decade were marked by a multitude of bilateral agreements, preferential treatment, shifting of allegiances and conflicts that changed and shaped the former soviet space into what we see today: an area where the economic integration process is led by Russia and any deviation is severely sanctioned.

In their attempts to integrate to an ever-competing market economy and the new realities at the international scale, the former soviet countries had chosen either to stick by Russia and follow its lead, or to attempt a shift both in terms of politics and economy, thus orienting towards the European Union (EU) and its values. To better illustrate these tendencies, we will analyze three of the former soviet states - Belarus, Ukraine and the Republic of Moldova- using macroeconomics indicators in light of their preferences, either the EU represented by the Deep and Comprehensive Free Trade Area Agreements or Russia with its Eurasian Economic Union economic regional integration project.

The variables used in our analyses are Gross Domestic Product, Foreign Direct Investments, trade balance structure and the Human Development Index and these were chosen to highlight the transformation that these states went through since the collapse of the Soviet Union.

The GDP and the Foreign Direct Investments are a clear indicator of economic development and economic stability and show the degree of confidence that the investors have in an emerging market economy, while the trade balance structure shows the progress and the capacity of an economy to adapt to the requirements of an evolving global market. The Human Development Index has been chosen to illustrate the link between the economic development shown by the other variables



and the welfare of the people of the states analyzed, as this is an indicator often used to better connect the economic data with the social reality.

Based on these variables, the purpose of our paper is to illustrate that although the centralized economy (specific to the communist era) and the production and export of the heavy industry products and agricultural goods is no longer in high demand, and as such, these three states have a long road ahead of them to diversify their economy and adapt to the international market.

The data comprised in the tables shown in the following sections illustrate that the transition towards a fully functional market economy is ongoing and that these states have still a challenging road ahead of them.

Belarus

Belarus is one of the most eloquent examples of the countries who stayed on the curse once the Soviet Union collapsed. In 1991 together with Russia and Ukraine formed the Commonwealth of Independent States, reaffirming its support towards the Russian politics and in 1993 took a step further in that direction by forming the customs union with Russia. Highly contested at that point and regarded as Russia's attempt to control its neighborhood as the European Union started to offer Free Trade Area Agreements to the states that were formally part of the soviet bloc, this customs union was the fundamental brick on would later become the Eurasian Economic Union.

The '90s were marked as one of the most difficult decades for most of the Eastern Europe states, punctuated with reforms and difficult decisions, which ultimately paved the way towards the marked economy status.

Belarus was no stranger to the challenges that the world economy required in order to be a competitor on a new market, but it remained mainly closed to the western developments, choosing to intensify the ties with Russia and CIS countries. This decision led to an underdevelopment of trade structure and a very low flow of foreign direct investments. With an approach nearly identical to Russia in terms of international trade relations and reforms, Belarus remained with an economy structured on soviet principles, a heavy industry that was no longer productive and an agricultural sector oriented towards producing the same goods as in the former years.

Belarus is a state with a highly centralized and state-controlled economy, an economy based on low energy prices and imports of raw materials from Russia. The economic crisis of 2008-2009 and the poor management of the situation created at the macroeconomic level led to a sharp deficit and the acceleration of the inflation rate (Purg, Sauka, Mets, 2018, p.78). Due to economic isolation, the situation in Belarus has been rectified with the help of Russia, which has intervened massively in the domestic economy since 2011. This intervention can be seen after 2011, but especially after 2015 when relations between the two intensified following the establishment Eurasian Economic Union.

Belarus is completely dependent on Russia for gas, and in this case, Russia is not only the main supplier of gas, but also the owner of the gas transmission network that passes under the territory of Belarus. The dependence on Russia is accentuated



not only by the fact that Belarus has a preferential tariff on gas and oil, but also by Russia's exclusive control over Belarus' trade policy upon joining the Eurasian Customs Union (Korosteleva et.al, 2018, pp. 124-131).

Belarus defines the economic system as market socialism, but it is most similar to a planned economy in which the central government directs the economy regarding the production and distribution of goods.

The relations between the European Union and Belarus have been strained, mainly due to the close relationship this state has with Russia, the autocrat style in which Lukashenko governs and the political repressions, the reluctance to adopt the European values and reforms required in order to sign a Deep and Comprehensive Free Trade Area Agreement.

However, during 2013-2014 Belarus played a mediating role in managing relations between Russia and Ukraine by facilitating high-level meetings (such as the 2013 Minsk Summit or the 2014 Warsaw Summit) and encouraging the parties to negotiate in order to find a solution to the conflict in eastern Ukraine. Belarus's attitude at the time prompted the European Union to change its approach and invite Belarus to more advanced discussions on cooperation between the two sides (Korosteleva, et.al, 2018, p. 142), but these discussions came to no avail.

From 2016 to 2020, there is no significant progress regarding the relations between Belarus and the European Union, no new agreement has been negotiated to regulate bilateral trade relations between the two parties, and even more, the dialogue was frozen. Moreover, on 17th of February 2020 the Council decided to extend the restrictive measures against Belarus with regard to the arms trade until February 2021.

Republic of Moldova

The Republic of Moldova is a component part of the Community of Independent States and the Organization for Democracy and Economic Development. It is also an important member of the Eastern Partnership, and since 2007 has begun to develop closer and closer relations with the European Union. As a result of the 2013 trade deficit and the economic crisis in Russia in the period of 2012-2015 that affected economic growth, in 2014 Moldova faced a sharp devaluation of the national currency, which led to the depletion of national reserves and the failure to prevent the effects of the crisis. .

Although Russia is Moldova's second largest trading partner (in importance), there are very strong links between these two countries due to energy dependence, proximity and similar industry standards. Because of this, Moldova is very vulnerable and its economy has suffered due to the signing and ratification of the Association Agreement with the European Union, when in 2013 Russia banned wine imports. This was followed by other bans such as pork products in April 2014 or canned vegetables and fruits in July 2014. Also in August 2014, Russia suspended preferential



agreements with Moldova guaranteed by the CIS Free Trade Area, and then impose serious restrictions on the access of Moldovan workers to the Russian market¹.

The trade structure of the Republic of Moldova is highly dependent on the export of wine and agricultural products and as such, a greater effort must be made to diversify exports. The European Union and the International Monetary Fund have allocated a number of funds to reduce the trade deficit, but negotiations for agreements with both parties are difficult due to objections raised by Russia, which sees any intervention in the area as a direct threat to its security and safety. (World Bank, 2018).

Ukraine

Ukraine is the largest state in the Eastern Partnership, but faces serious economic problems such as a sharp budget and trade deficit and an external debt that peaked at 78.1% of GDP in 2013. 2015, due to the reorientation towards the European Union and the granting of a loan by the IMF, the percentage of external debt relative to GDP starts to decrease slightly, reaching 73.2% in 2018. For the period 2019-2020, the consulted databases have no information.

The devaluation of the hryvnia that followed immediately after 2013, the year in which the external debt recorded the highest percentage, made Ukraine apply for loans from the International Monetary Fund in 2014 in order to more easily overcome the effects of the crisis. The loan was granted on a multi-annual basis and subject to harsh reforms. The immediate consequence was an increase in energy prices (up to five times) (World Bank, 2018)

The austerity measures also brought with them a slight economic growth, but the war with Russia and the cessation of its gas supply led to an increase in the depreciation of the hryvnia and a more severe depletion of the state's energy reserves.

In this situation, the European Union and the United States provided additional guarantees to the International Monetary Fund, and in addition the European Union made available to Ukraine a package of aid consisting of:

- Grants for development assistance
- Macro financial assistance
- Support for decentralization and reforms for regional development.

Due to the conflict in Donbass, which began in 2014, exports and imports to and from Russia decreased, while trade with the European Union increased slightly. As a result of Ukraine's proximity to the European Union, Russia has imposed import restrictions on products such as textiles, cars, food (Nordea, 2018).

Ukraine's exports to the countries that are part of the Eurasian Economic Union are mainly composed of transport machinery and equipment, a profile inherited since membership in the Soviet Union, and this type of product is unlikely

¹ Moldova Economic Outlook în Focus Economics. Economic Forecasts from World's Leading Economists, (retrieved from: <https://www.focus-economics.com/countries/moldova>).



to be of interest to the European market due to firstly the lack of demand and secondly the different quality standards.

On the other hand, exports to the European Union include mainly processed metals, scrap metal, iron ore, seeds and wood. Given this situation, the hypothesis has been advanced that what has been lost through the restrictions imposed by Russia can be gained through a closer rapprochement with the European Union. This is certainly plausible, but due to structural differences in trade flows, a simple substitution is not a long-term solution.

Ukraine is eminently dependent on Russia in terms of gas supply. After Russia stopped gas supplies to Ukraine in June 2014, it turned to other sources, mainly using connections to Europe through so-called reversible flows. Basically, Ukraine also bought Russian gas, but imported it from European countries. This led to vehement protests from Gazprom, and with the help of European Union mediation an agreement was reached between Russia and Ukraine towards the end of 2014 regarding gas supply. Starting with the period 2015-2019 amid the tense situation with Russia, Ukraine is reorienting towards Azerbaijan and other gas delivery routes that bypass Russia

1. Literature review

The literature studying the economic integration process in the former soviet space has evolved over the last 30 years from short studies with general characteristics to more complex one with pluridisciplinary approach. Through almost all the '90s decade the literature was focused on the ever-present theme from the Cold War of the "Good" fighting the "Evil". Most of the works covered comparative studies of the EU and CIS and focused on the resource competition on the area, leaving other themes such as market economy, transition or reforms in the subsidiary. Some of the most representative works from this period are those of Bruno (1994), Kamianski (1996) and Jovanivic (1998).

Starting with the 2000s there is a shift not only in the international economy, but also in the former soviet space and the literature is more complex. The decade that saw most of the former soviet republics becoming members of the World Trade Organization coincided with a plethora of studies focused on market economy, transition and regional integration. From 2000s onwards, the most representative works analyzing the former soviet space in terms of geo-economics and geo-politics are those of Korostelevna (2000, 2003, 2014, 2015, 2018), Zhukov and Reznikova (2008), Schumylo-Tapiola, (2014, 2015), Purg, Sauka and Mets (2018), Ryhor (2018), Makarychev and Mommen (2019).



2. Regional economic integration as a means to boost the transition towards market economy

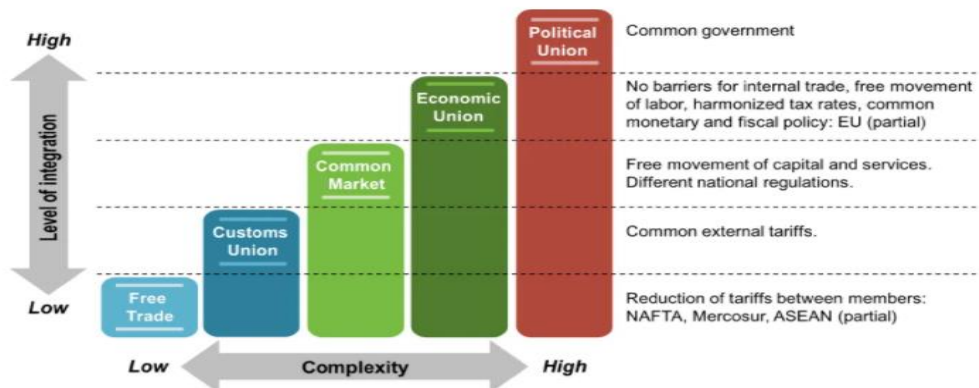
Regional economic integration is defined as an agreement between groups of countries in a geographic region, to reduce and subsequently remove tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other.

There are five levels of regional economic integration, as shown in the figure below. Their main characteristics depend on the level of integration. Each of these levels has a grade of complexity and a level of integration increased as they evolve from one-step to another. Thus:

- the Free Trade Area is based on the reduction of tariffs,
- the customs union stresses the need of common external tariffs,
- the common market underlines the freedom of movement of capital and services,
- for the economic union is primordial that there are no barriers for internal trade and the need for harmonized tax rates is primordial; also, a common monetary and fiscal policy and freedom of movement of labor force is crucial,
- while the political union cannot function without a common government.

Figure 1 below shows a schematic version of the levels of regional economic integration

Figure 1. Regional Economic Integration Levels



Source: The Geography of Transport Systems (2020)²

These characteristics are observed while analyzing the regional economic integration structures present all around the Globe.

Despite the fact that one of the most important objective of almost every regional economic integration structure was to boost the economic development of

² Levels of Economic Integration (2020), retrieved from: https://transportgeography.org/?page_id=4082.



the region, in reality in the former soviet space, these structures were constructed on a political basis and the goal of achieving market economy status and adhering to international standards was perceived as a betrayal towards Russia and thus severely sanctioned.

This approach can be observed in the way Russia reacted to the Deep and Comprehensive Free Trade Area Agreements offered to the Eastern Partnership states by the European Union on the one hand, and the aggressive marketing of the Eurasian Economic Union – the newest economic integration project led by Russia – on the other hand.

The sections below will underline the main characteristics of these structures, which will also be shown, and on the graphs analyzing the macroeconomic indicators for Belarus, Ukraine and Moldova.

2.1. The Deep and Comprehensive Free Trade Area Agreements

The trade part of the Association Agreements signed with the Member States of the Eastern Partnership takes the form of the Deep and Comprehensive Free Trade Area Agreements, which implement part of the *acquis communautaire* of the Internal Market. The “comprehensive” scope of the Agreements refers to the fact that these trade transactions not only liberalize trade in goods (ie the “traditional” part of a free trade agreements), but cover all important trade areas on the European Union’s agenda and those of world trade, such as:

- services,
- public procurement,
- competition
- intellectual property rights

The “in-depth” dimension of the Agreements refers to the fact that these trade agreements aim at the gradual integration of the economies of the partner countries into the Internal Market of the European Union based on legislative harmonization.

Deep and Comprehensive Free Trade Area Agreements provide for an extensive program of legal measures and institutional modernization in specific areas and, if properly implemented, should lead to more intensive trade relations with the European Union, as well as a harmonized business environment in the Eastern Partnership countries. Together, they will eventually lead to harmonization, especially in the economic field where is very important to create the conditions for a possible accession to the European Union of some of these states (Muravska, 2016). This criterion requires the existence of a functioning market economy, able to cope with the pressure of competition and market forces within the European Union.

It is important to emphasize that harmonization with European legislation is a much greater commitment than European standards, where the Deep and Comprehensive Free Trade Area Agreements offer only a gradual transposition. In accordance with the principles of the European standardization organizations, once



the European standards have been adopted by the signatory states, their national standards that conflict with the European ones will be abolished.

2.2. The Eurasian Economic Union

The Eurasian Economic Union (EEU), formed in 2015, is a regional economic integration project which has evolved from the Eurasian Customs Union established in 2010 by Russia, Belarus and Kazakhstan. It was designed to mirror the integration process of the EU at all levels, but in a shorter time frame. In 2010, President Vladimir Putin had all the milestones and time frame of this project all lined up, including the launching of the EEU in 2015. Even from the begging this project faced a lot of challenges, but by far the most dire ones were those concerning the standards, standardization and technical regulation, as they were the most important ones in order to advance in terms of harmonization. Technical regulations negotiations were most advanced in terms of harmonization. This is because the main objective in this area was to ensure the free movement of industrial products within the Eurasian Economic Union by removing technical barriers to trade (Vinukov, 2018, p.33).

To this end, the Eurasian Economic Commission has exclusive competence to adopt technical regulations which establish common mandatory requirements for products included in the Common List of Products and which are the subject of single certificates of conformity.

Manufacturers and importers of these products have the right to request a certificate valid in a country of the Eurasian Economic Union or a single certificate of conformity valid throughout the Union. Products which are not included in the Common List shall be subject to conformity assessment procedures in accordance with the rules of national law. Technical standards designed to ensure the conformity of manufactured or imported products with the requirements of technical regulations are voluntary and the Treaty on Eurasian Economic Union provides for their harmonization with international and regional standards.

Members of the Eurasian Economic Union are free to enter into agreements and establish their own trade and investment policy, provided that the most-favored-nation clause is granted in favor of the other states in the Eurasian Economic Union. Interestingly, with regards to the financial services sector, the Eurasian Economic Union Treaty provides for regulatory cooperation in order to harmonize relevant legislation in the long term. Coordination of transport policy provides for the liberalization of road, rail and inland waterway transport (The Eurasian Economic Union Treaty, Section VI, Functioning of the Customs Union) .

Trade within the Eurasian Economic Union is not the only area of interest for smaller members. Concerning trade with third countries, the Eurasian Economic Union has largely adopted Russia's tariff level - which is higher than that previously applied by Kazakhstan and Armenia - as a basis for the common external tariff, which means that other countries members of the Eurasian Economic Union have had to raise tariffs.



3. Trade balance structure

Trade balance structure is one of the most important indicator when analyzing the strength of the economy in relation to other countries from the region. This indicator is a solid base in analyzing the main partners of trade, but also the fluctuations that occur as time passes. These fluctuations can be linked not only to major international events such as shifts of power in the region, (frozen) conflicts, a change in the production factors or consumption needs, but also to internal developments such as the success (or rather failure) of reforms in core areas, the stability of macroeconomic environment or the satisfaction of the populations (linked in turn with the Human Development Index as shown in the last section of this study).

Following a trend set since the late '30s and being partly oblivious of the international standards, these countries failed to keep the pace with the technology and the new realities in terms of trade. Only when signing Free Trade Area Agreements with countries outside the soviet space had these states came across the reality that their soviet style economy was highly unprepared to provide competitive and qualitative products and services on a marked already liberalized and connected to the latest technology. Some of them choose to leave behind the "soviet tradition" while others remained glued to the old ways.

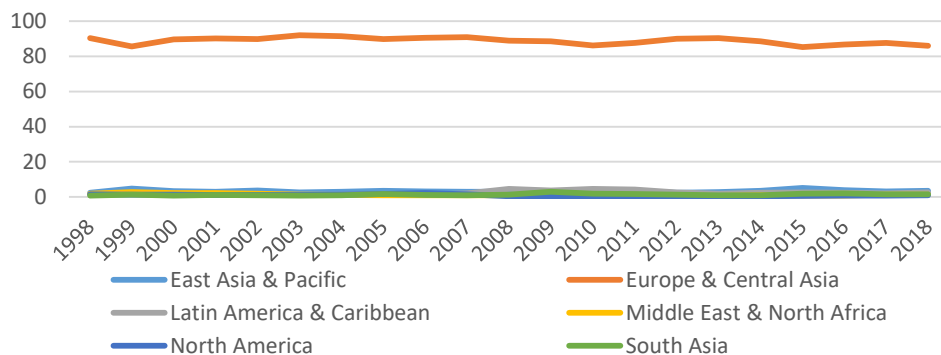
In order to demonstrate this, the series graphs below illustrate the trade structure of Belarus, Moldova and Ukraine in terms of trade partners and the structure of their imports and exports. Thus, Figure 2 shows the main export partners for Belarus. As shown in the previous section, over the years the export partners remained the same for Belarus with Europe and Central Asia clearly leading in comparison to other areas of the Globe. The need to explore other markets and identify new potential trade partners is close to non-existent for a country unwilling to implement reforms and to invest in the development of its underperforming economy.

Russia absorbs the main products destined for export because Belarus is part of the economic integration structures led by this country such as the CIS and the Eurasian Economic Union. However, due to the usage of the old soviet standards and the reluctance to adopt new ones, its products have become uncompetitive on a market that is no longer based on heavy industry and agriculture. The data for 2019-2020 is not yet available. The graph showing the main import partners for Belarus is illustrated below in Figure 3. The imports show the same tendency as the exports, as Belarus is clearly oriented towards Europe and Central Asia.

This change in the imports is a consequence of the fact that Belarus is a founding member of the Eurasian Economic Union (EEU), which had started in the latest years to sign free trade area agreements with other countries mostly from Asia-Pacific region. These free trade area agreements contributed to the diversification of imports for the members of the EEU. The data for 2019-2020 is not yet available. In order to better understand the trade flows of Belarus, Figure 4 and 5 show the most important exported and imported products.

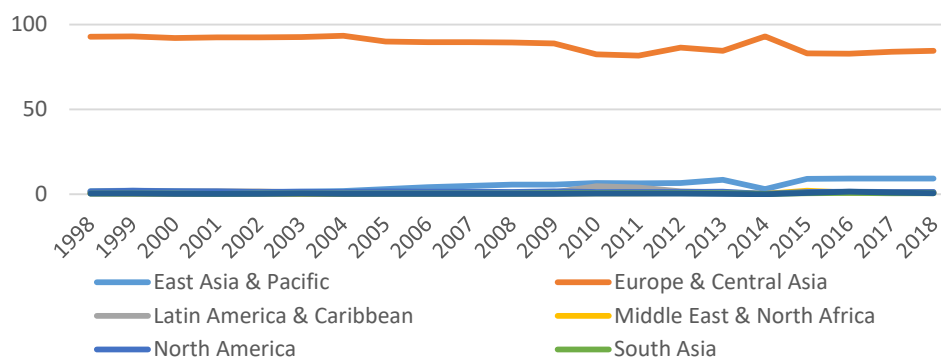


Figure 2. Belarus: main export partners



Source: authors' representation based on World Bank data(2020)³

Figure 3. Belarus: main import partners



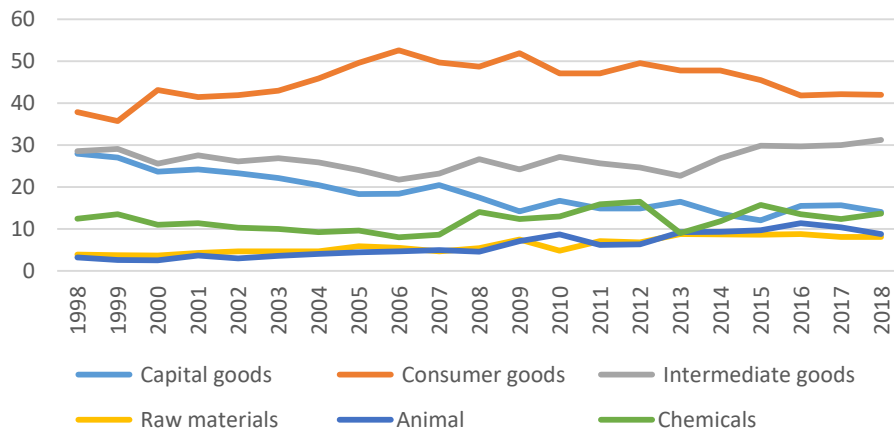
Source: authors' representation based on World Bank data (2020)⁴

From 2015 onwards, the curve representing consumer goods tends to stabilize around 40%, an improvement compared to the first years after the collapse of the Soviet Union. Intermediate goods tend to stabilize towards the value of 30% of the total exports, while the capital goods lose ground starting with 2009, reaching 15% in 2018. An interesting evolution can be observed regarding the evolution of capital goods which were on a descendent path since 1999, reaching 10% in 2018 and the raw materials which are on a steady path until 2010, and then started to increase until 10% in 2018.

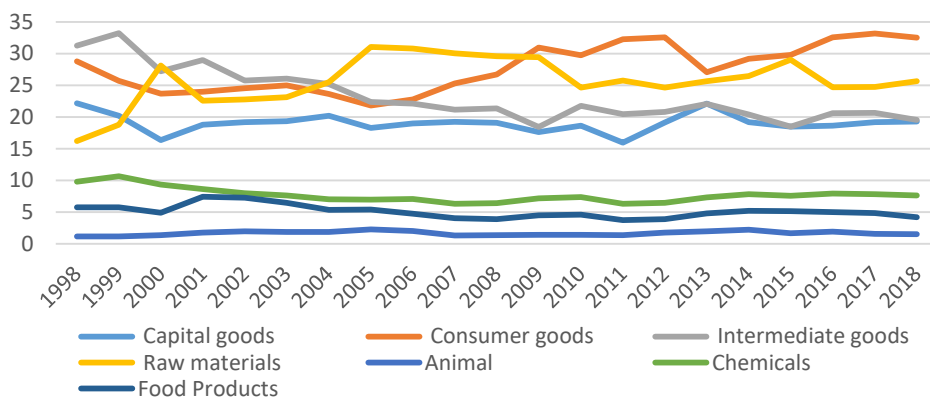
³ The World Bank, Belarus Trade Statistics, (retrieved from: <https://wits.worldbank.org/CountryProfile/en/BLR>).

⁴ *Ibidem*.



Figure 4. Belarus: most relevant exported products

Source: authors' representation based on World Bank data (2020)⁵

Figure 5. Belarus: most relevant imported products

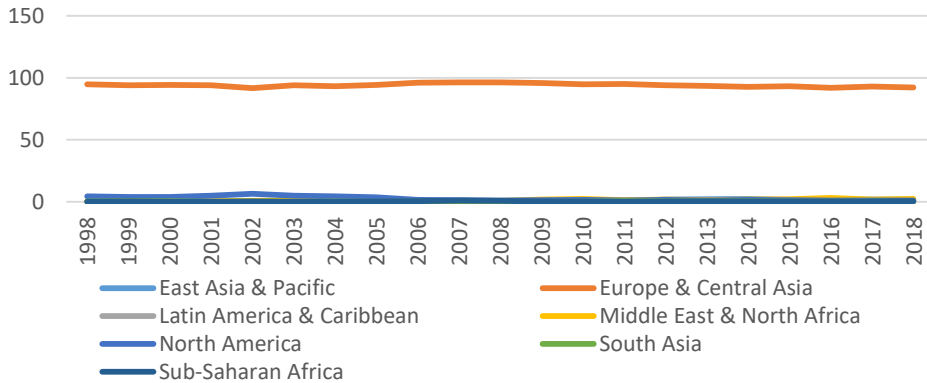
Source: Author's representation based on World Bank data (2020)⁶

Belarus imports are mainly composed of consumer goods, raw materials and intermediate goods whose percentage is between 20% and 33% in 2018. Chemicals and food products have a lower share, between 2% and 5%, while capital goods stabilized around 20% for the entire time frame analyzed. Compared to Belarus, the trade indicators for Moldova look different, as shown in the series of graphs below, illustrated by Figure 7, Figure 8, Figure 9 and Figure 10.

⁵ The Observatory for Economic Complexity, Trade data, (retrieved from: <https://oec.world/en/>).

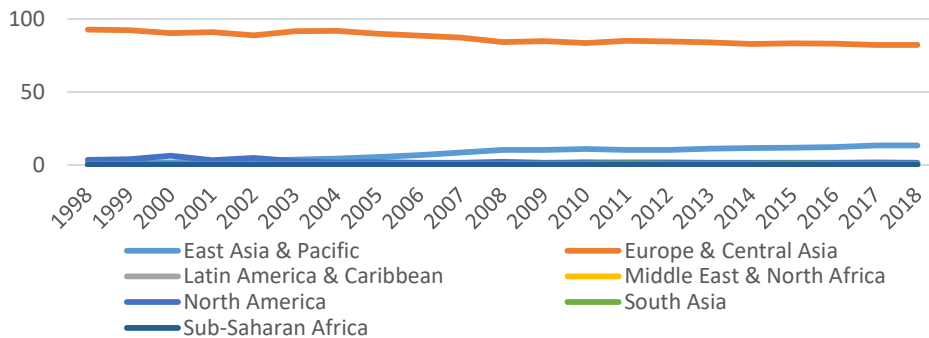
⁶ *Ibidem*.

Figure 7. Moldova: main export partners



Source: author's representation based on World Bank data (2020)⁷

Figure 8. Moldova: main import partners



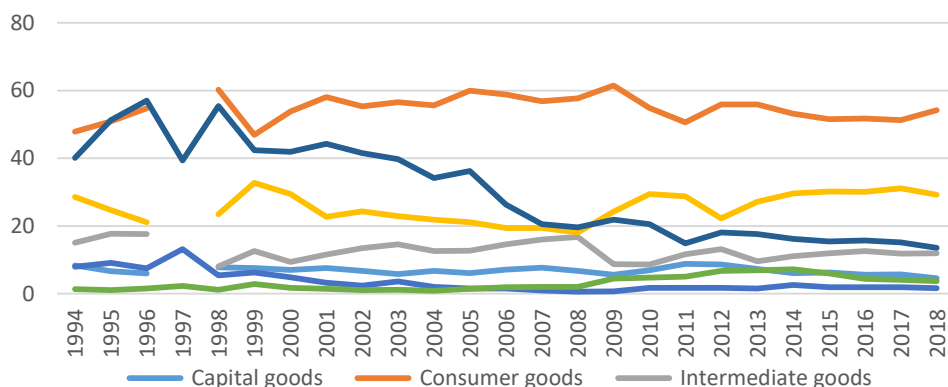
Source: author's representation based on World Bank data (2020)⁸

Unlike exports that are concentrated exclusively to Europe, on the import chart we can see that the curve for East Asian and Pacific countries is marked, a sign that consumer preferences in the Moldovan market are beginning to diversify and try to reduce dependence on the CIS market.

⁷ The World Bank, Moldova Trade Statistics, (retrieved from: <https://wits.worldbank.org/CountryProfile/en/MDA>).

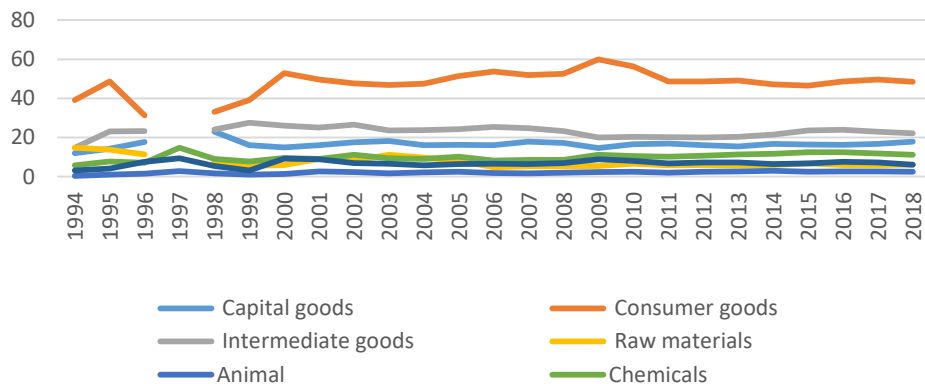
⁸ *Ibidem*.



Figure 9. Moldova: most relevant exported products

Source: author's representation based on World Bank data (2020)⁹

Moldova exports mainly consumer goods - over 50% in 2018, raw materials - 30% in 2018, followed by food, intermediate and capital goods, chemicals and animal products, with percentages ranging from 12% to 2% in 2018. Vegetable products and plants, as well as textiles and clothing contribute to the diversification of Moldova's exports. At the level of 2018, they stood at 28%, respectively 14%.

Figure 10. Moldova: most relevant imported products

Source: author's representation based on World Bank data (2020)¹⁰

Moldova concentrates its exports mainly to Romania, which is also the main trading partner, Russia and Ukraine. In the case of Moldova, it is best to see the orientation of international trade towards close neighbors, in a percentage of almost

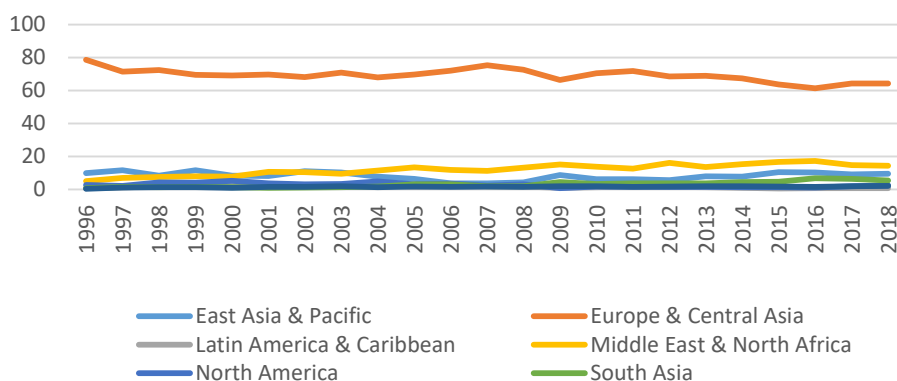
⁹ The Observatory for Economic Complexity, Trade data, (retrieved from: <https://oec.world/en/>).

¹⁰ *Ibidem*.

100%. States in the rest of the world are barely represented on the chart, and this is due to the fact that Moldova is part of few international trade agreements.

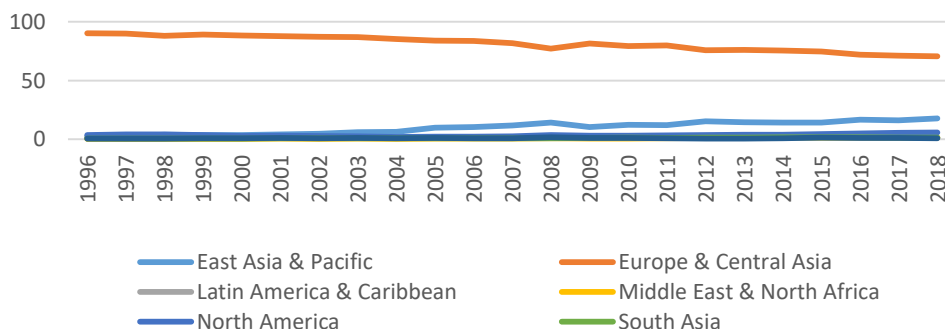
Moldova mainly imports consumer goods. They have a share of 50% of total imports since 2011, and this percentage has been maintained until 2018. Intermediate goods and capital goods are the following categories of products that Moldova imports, their percentage values being around the figure of 22% and 18% respectively at the level of 2018

Figure 11. Ukraine: main export partners



Source: author's representation based on World Bank data (2020)¹¹

Figure 12. Ukraine: main import partners



Source: authors's representation based on World Bank data (2020)¹²

¹¹ The World Bank, Ukraine Trade Statistics, (retrieved from: <https://wits.worldbank.org/CountryProfile/en/UKR>).

¹² *Ibidem*.



The trade indicators for Ukraine illustrated in the Figure 11, 12, 13 and 14 look somewhat similar to those of Moldova and Belarus given the fact that they were all part of the Soviet Union and had a similar model of centralized economy for the better half of the last century.

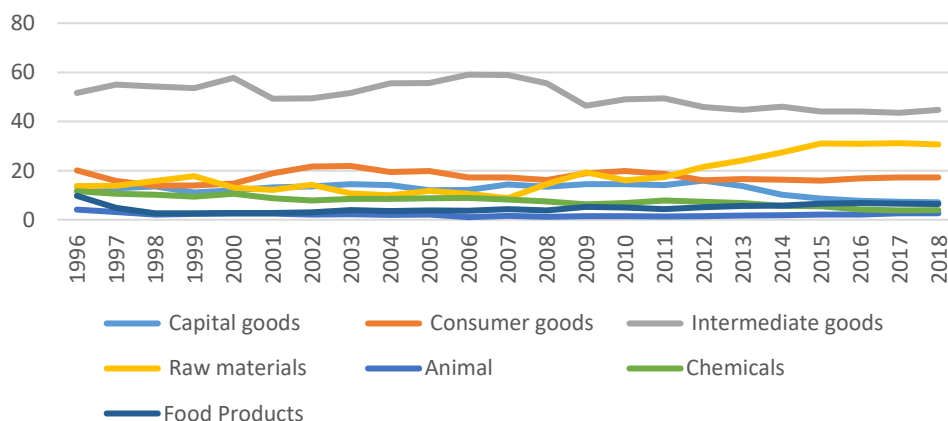
Ukraine's exports are mainly oriented to Europe and Central Asia, but since 2006 it can be seen that the share of the Middle East and North Africa is starting to approach 20% and this trend is maintained until 2018. Starting with 2009, exports to Europe and Central Asia are starting to decline by up to 60%, but this indicates a concern for diversification, as the chart above shows. Thus, it is observed that exports are beginning to move to more remote areas such as South Asia.

If in the early 1990s almost all of Ukraine's imports came from Europe and Central Asia, mainly from Russia and China, it can be seen that the percentage in these areas starts to decrease from 2008 when it reaches 76%. The downward trend is maintained until 2018 when the percentage reaches 70%. On the other hand, the percentage of East Asian loans starts to increase from 2004 when it reaches 10%, and the upward trend is maintained until 2018 when the percentage reaches 20%.

The share of export products is changing, a sign that Ukraine is starting to follow the trends of the international market with its opening to the European Union, accession to the World Trade Organization and then the signing of Free Trade Area agreements with the European Union.

Intermediate products have decreased considerably since 2009 from 60% (at the level of 2005-2007) to 50%. After 2009, they decrease even more, reaching 45% in 2018.

Figure 13. Ukraine: Most relevant exported products

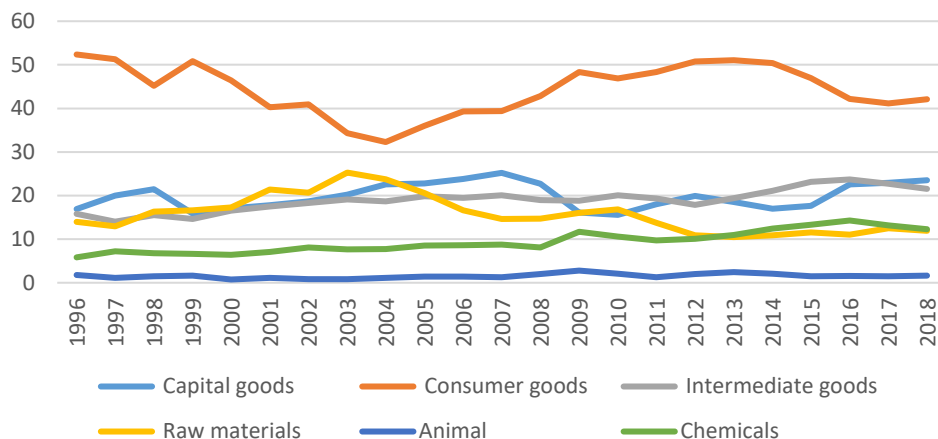


Source: authors's representation based on World Bank data (2020)¹³

¹³ The Observatory for Economic Complexity, Trade data, (retrieved from: <https://oec.world/en/>).

The same trend is observed in capital goods, while the export of raw materials increases from 20% in 2012 to 30% in 2015, and this percentage is main Gas exports have been declining since 2014, when the conflict with Russia began due to the annexation of Crimea, and metals also experienced a sharper decline with 2009, a year that marks an older conflict with Russia that is growing with increasing gas tariffs. In 2018, the export of metals reached 25%, and those of gas decreased up to 3%. The exports of cars and electrical products have a somewhat linear evolution, which in the period 2008-2018 is at a percentage value of 10%.

Figure 14. Ukraine: Most relevant imported products



Source: authors' representation based on World Bank data (2020)¹⁴

Consumer goods are the main product category imported by Ukraine, followed by capital goods, intermediate goods and chemicals. The largest fluctuation was in consumer goods, which in the period 2011-2015 reached the level of 50%, and since 2016 they remain at 41%. As for intermediate and capital goods, they are close as a percentage - 22-23% in 2018. In terms of imports, they increased by 21% in 2017, and the EU's share of total imports from Ukraine was 42% of the total, remaining in the range of 39-44% after Ukraine began importing gas from the EU. from 2014, as shown in the graphs below. The structure of imports was more stable with the shift to minerals, machinery and equipment to the detriment of agricultural, chemical and stationery products. This trend is illustrated in the series of graphs below which show the main groups of imported products.

The most significant increases are recorded by consumer goods (since 2009), capital goods (since 2016) and intermediate goods (since 2013). A slight increase is also observed in terms of plastic and rubber products (since 2014), but also mechanical and electrical products (since 2015).

¹⁴ *Ibidem*.

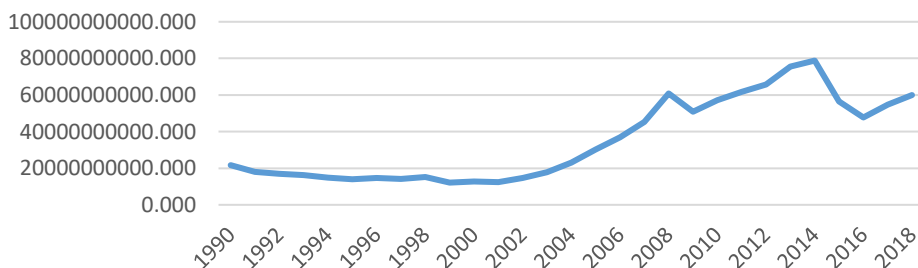


4. Gross Domestic Product

Gross Domestic Product is an important indicator for economists and investors alike because it illustrates the economic production and growth and it shows the health of the economy, its strength and capacity to sustain growth and development. GDP measures the monetary value of final goods and services (those that are bought by the final user) produced in a country in a given period. It also includes some nonmarket production, such as defense or education services provided by the government (IMF, 2020).

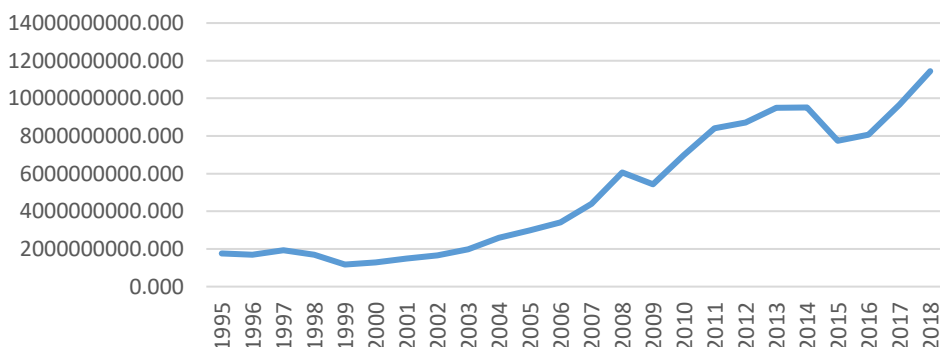
Figure 15, Figure 16 and Figure 17 offers an analyses of the fluctuation of GDP for Belarus, Moldova and Ukraine from the early '90s until 2018. The data for 2019-2020 is not yet available.

Figure 15. Belarus: GDP - \$



Source: authors' representation based on World Bank data (2020)¹⁵

Figure 16. Moldova: GDP - \$



Source: authors' representation based on World Bank data (2020)¹⁶

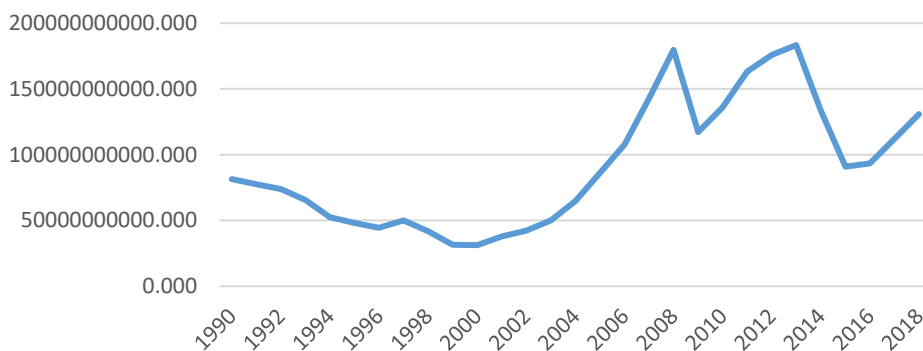
¹⁵ The World Bank, Belarus – GDP (retrieved from: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BY>).

¹⁶ The World Bank, Moldova –GDP (retrieved from: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BY>).

GDP in Belarus averaged 36.13 USD Billion from 1990 until 2018, reaching an all time high of 78.81 USD Billion in 2014 and a record low of 12.14 USD Billion in 1999. GDP in Belarus is expected to reach 51.10 USD Billion by the end of 2020, according to Trading Economics global macro models and analysts expectations. In the long-term, Belarus's GDP is projected to trend around 59.00 USD Billion in 2021 and 62.50 billion in 2022. (Trading Economics, 2020). GDP in Moldova averaged 4.82 UDS Billion from 1990 until 2019, reaching an all time high of 11.96 USD Billion in 2019 and a record low of 1.17 USD Billion in 1999.

GDP in Moldova is expected to reach 10.30 USD Billion by the end of 2020, according to Trading Economics global macro models and analysts expectations. In the long-term, Moldova's GDP is projected to trend around 11.40 USD Billion in 2021 and 12.30 USD Billion in 2022. (Trading Economics, 2020)

Figure 17. Ukraine: GDP - \$



Source: authors' representation based on World Bank data (2020)¹⁷

GDP in Ukraine averaged 91.57 USD Billion from 1987 until 2019, reaching an all time high of 183.31 USD Billion in 2013 and a record low of 31.26 USD Billion in 2000. GDP in Ukraine is expected to reach 115.00 USD Billion by the end of 2020, according to Trading Economics global macro models and analysts expectations. In the long-term, Ukraine's GDP is projected to trend around 142.00 USD Billion in 2021 and 159.54 USD Billion in 2022. (Trading Economics, 2020).

5. Foreign Direct Investments

For developing countries, the Foreign Direct Investments have become an important source of private external finance. They represent investments in production facilities, but their significance for developing countries is much greater. They can add to investible resources and capital formation, and represent a means of transferring production technology, skills, innovative capacity, as well as

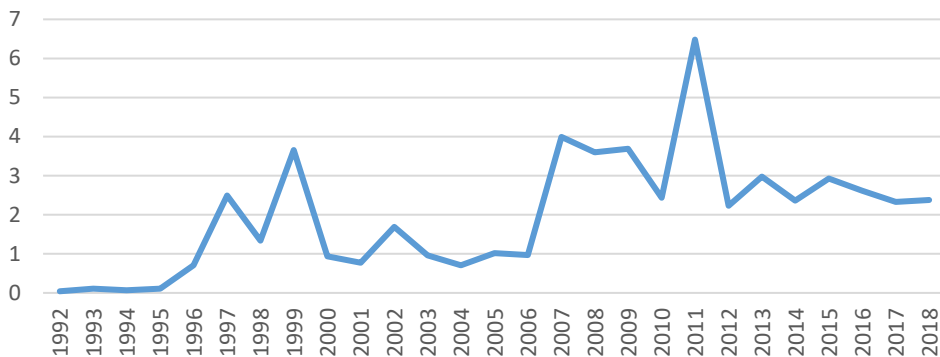
¹⁷ The World Bank, Ukraine –GDP (retrieved from: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BY>)



organizational and managerial practices between locations. Last, but not least, they are also an instrument of accessing international marketing networks. (IMF, 2020)

Given the potential role FDI can play in accelerating growth and economic transformation, developing countries are strongly interested in attracting it. The tables below shown by Figure 18, Figure 19 and Figure 20 illustrate this as they provide a picture of the FDIs in the countries analyzed from the '90s until 2018. The data for 2019-2020 is not yet available.

Figure 18. Belarus: Foreign Direct Investments inflows



Source: authors' representation based on World Bank data (2020)¹⁸

Foreign Direct Investment in Belarus averaged 328.94 USD Million from 2000 until 2020, reaching an all time high of 2734.30 USD Million in the fourth quarter of 2011 and a record low of -298.40 USD Million in the second quarter of 2018 (Trading Economics, 2020)¹⁹. The vast majority of the FDIs come from Russia as a token of appreciation for the “long-lasting friendship” between these countries.

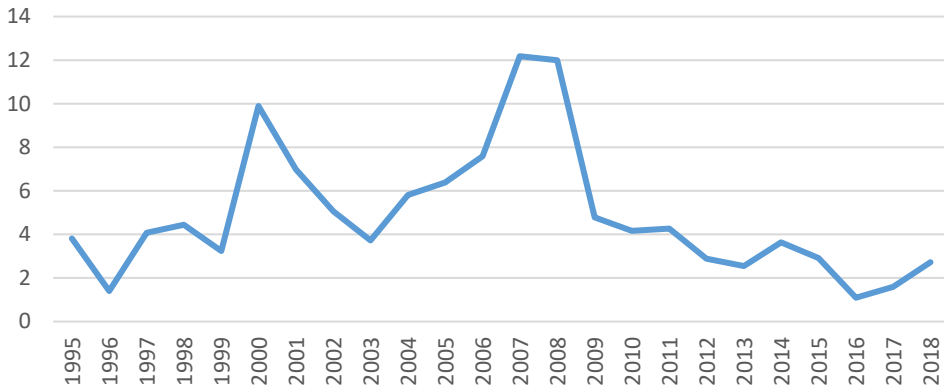
Foreign Direct Investment in Moldova averaged 57.86 USD Million from 1995 until 2020, reaching an all time high of 292.04 USD Million in the second quarter of 2019 and a record low of -9.26 USD Million in the second quarter of 2016.²⁰ Starting with 2017 the amount has started to rise, but the political instability led to a lack of interest from the foreign investors (UNDP, 2019). In Moldova, almost 60% from the FDIs come from EU countries, while those from the Russian Federation amount around 28%. (Woldemar, Luecke, Lupusor, 2017).

¹⁸ The World Bank, Belarus –FDI (retrieved from: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>).

¹⁹ Trading Economists, Belarus statistics (retrieved from: <https://tradingeconomics.com/belarus/gdp-growth-annual>).

²⁰ Trading Economists, Moldova statistics (retrieved from: <https://tradingeconomics.com/moldova/gdp>).

Figure 19. Moldova: Foreign Direct Investments inflows



Source: authors' representation based on World Bank data (2020)²¹

Figure 20. Ukraine: Foreign Direct Investments inflows



Source: authors' representation based on World Bank data (2020)²²

Foreign Direct Investment in Ukraine averaged 1002.19 USD Million from 1998 until 2020, reaching an all time high of 6502 USD Million in the fourth quarter of 2005 and a record low of -3200 USD Million in the first quarter of 2015²³. The vast majority of the FDIs in Ukraine comes from EU countries, especially after the rift with Russia after 2014 (Nordea, 2020)²⁴.

²¹ The World Bank, Moldova- FDI (retrieved from: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>).

²² The World Bank, Ukraine – FDI (retrived from: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>).

²³ Trading Economists, Ukraine statistics (retrieved from: <https://tradingeconomics.com/ukraine/gdp-growth>).

²⁴ Nordea, Country Profile Ukraine (retrived from:: <https://www.nordeatrade.com/en/explore-new-market/ukraine/investment>).



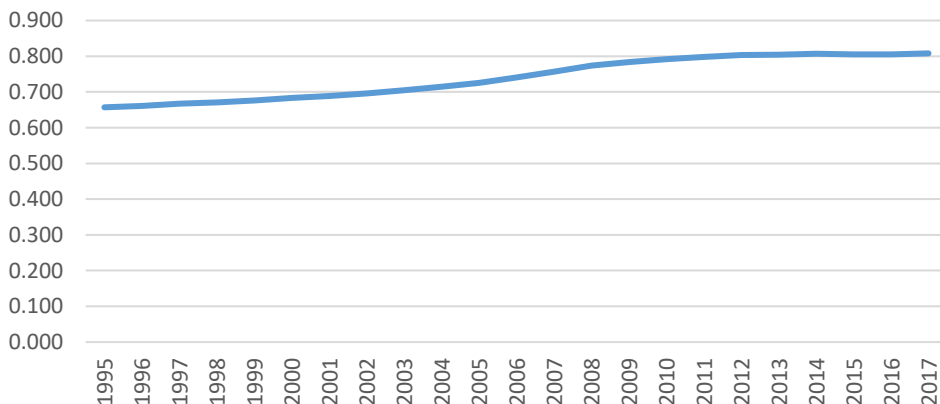
6. Human Development Index

The Human Development Index (HDI) was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and above, and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing Gross National Income. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean.

The graphs below illustrated by Figure 21, Figure 22 and Figure 23 show the evolution of HDI for every state analyzed in this paper. The data for 2019-2020 is not yet available

Figure 21. Belarus: Human Development Index

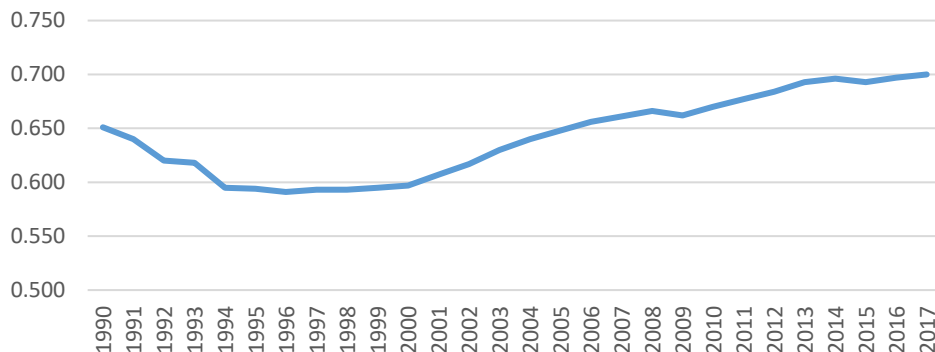


Source: authors' representation based on Human Development Index data (2020)²⁵

As shown in the graph above, even from the '90s the HDI in Belarus has maintained an elevated average, reaching 0,8 in 2008 and maintaining this level until 2018. This means Belarus has not only a high life expectancy, a highly educated population with a high standard of living.

²⁵ Human Development Index data, (retrieved from: Human Development Index - HDI 2017 | countryeconomy.com)

Figure 22. Moldova: Human Development Index

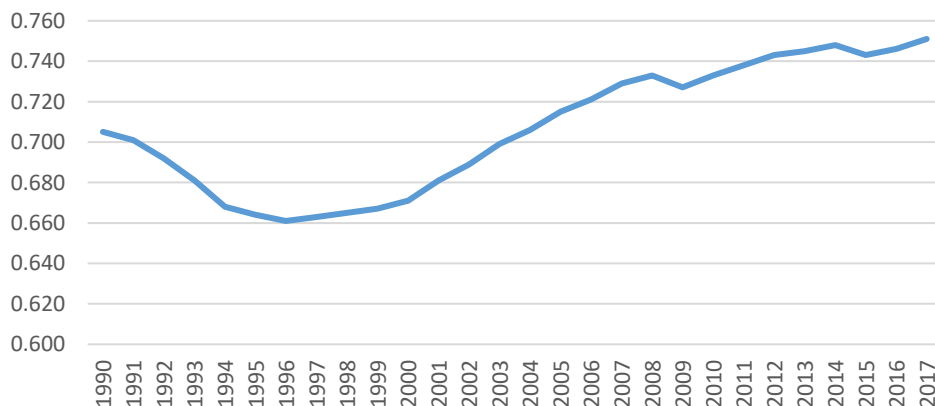


Source: authors' representation based on Human Development Index data (2020)²⁶

For Moldova the HDI depicts the struggles of this country from the early '90s onwards. The low levels of this indicator from the 1990 until 2005 show the low life expectancy, the lack of education and low standard of living, all of these being the harsh reality of the first 15 years after the communism fell.

The HDI increases with 2005 reaching 0,7 in 2014 and maintaining this value until 2018, a sign that in Moldova the life expectancy is higher and more population has access to education and a higher living standard.

Figure 23. Ukraine: Human Development Index



Source: authors' representation based on Human Development Index data (2020)²⁷

The HDI evolution for Ukraine follows almost the same pattern as observed in the case of Moldova. The first 10 years after the USSR collapsed, from 1990 until 2000 the HDI has a low level, a sign of low life expectancy, the lack of education

²⁶ *Ibidem.*

²⁷ *Ibidem.*



and low standard of living. Starting with 2001 the HDI is on an ascending path, from 0,68 to 0,75 in 2018, sign that the life expectancy grew, the standard of living is higher, and more population has access to education.

Conclusions

Market economy status was a goal for most of the former soviet states and in order to achieve it they embarked on a challenging road of reforms and transformation of all levels – from policies and politics to trade and doing business. This transition process marked their existence during most of the '90s and it was illustrated in their behavior on the international arena especially in terms of trade, GDP and FDI's.

Being positioned between to major regional players- the European Union and Russia, and having a highly unstable political climate, it is indeed very challenging to form and follow a secure path towards economic development and international recognition as a stable, safe market.

For Moldova and Ukraine this process was rewarded with closer ties to the EU through the Eastern Partnership and DCFTAs agreements, but at the same time they had to face the changing attitude of Russia manifested by an aggressive international policy and sharp tariffs to imports and exports. Belarus had chosen to maintain a very close relationship with Russia both in terms of international politics as well as trade and other economic aspects.

But these choices did not make out of Belarus, Ukraine and Moldova a winning party of the transition process. In many ways these countries still struggle to finish the transition and gain a respectable place in the international economics arena. Their economy still needs serious investments into trade diversification and a better connection to the international market through strategic trade agreements and FDI's. Their industry, which still works on the old soviet principle, needs to be modernized and a new, modern industry infrastructure put in place.

Agriculture, which for Moldova and Ukraine was a valuable asset at the beginning of the '90s, would benefit from major investments in irrigation and new farming methods using the benefits of today's technology. Developing new markets with the help of internal and external funding and exploring new markets and a new way of doing business would help these countries not only to thrive, but also to be recognized as promising emerging markets for the investors around the world.

After analyzing all the data illustrated in the sections above we conclude that the road towards a fully function market economy is not over yet for neither of these countries. The trade structure clearly shows their struggle to overcome their way of trading since the communist era and the GDP and FDI show their vulnerability to the global markets and their incapacity to better protect themselves in face of economic and financial shocks.

Being positioned between to major regional players- the European Union and Russia, and having a highly unstable political climate, it is indeed very challenging



to form and follow a secure path towards economic development and international recognition as a stable, safe market. In this regard, new steps need to be taken in order to strengthen the relations and links between the EU and these states. The frame of the Eastern Partnership needs to be revised in order to accommodate the particularities of these countries and to take into consideration the new realities that these countries are facing.

On the other hand, Moldova and Ukraine need to put a better effort into implementing the reforms required by the DCFTA agreements in order to have a better access to the European Single Market and to attract new investments. The reforms required contribute not only to a better adapted economy to the requirements of a global market, but also to a more stable political climate, giving thus a boost for the FDIs.

Getting closer to the European Union through the EaP and DCFTA needn't signify that the relations with Russia lose their importance, on the contrary. As the graphs show, Russia is still a very important trading partner for Ukraine, Moldova and Belarus, and thus its importance as a major player in the regional trade is unquestionable. Given the new realities, it is advisable that the trade agreements with Russia to be re-negotiated on agreeable terms for all the parties involved. A special case is that of Belarus whose close ties with Russia are undeniable ever since the early '90s. The links between these two states and the fact that Belarus is a founding member of all the regional economic integration structures led by Russia, should be a clear sign for the EU to re-think its approach towards this state. It is clear that Belarus won't abide by the sale rules and regulations that Ukraine and Moldova did, and as such a new frame approach will perhaps open a new way to re-initiate a dialogue with this country.

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