

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
LESYA UKRAINKA VOLYN NATIONAL UNIVERSITY**

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**TRADE AND ECONOMIC COOPERATION BETWEEN UKRAINE
AND THE EU AT THE CURRENT STAGE**

Speciality: 292 “International Economic Relations”

Educational and professional programme International Business

Research for a first bachelor's degree in higher education

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Protocol № _____
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dated _____ 202_ p.

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LUTSK – 2025

АНОТАЦІЯ

Міщук Ю. Торговельне та економічне співробітництво між Україною та ЄС на сучасному етапі.

Рукопис. Випускна робота бакалавра за спеціальністю 292 Міжнародні економічні відносини, ОПП Міжнародний бізнес. Волинський національний університет імені Лесі Українки. Луцьк, 2024. 54 с. англійська мова.

Актуальність теми дослідження визначається тим, що торговельно-економічне співробітництво між Україною та ЄС набуває особливого значення в умовах російської агресії та прагнення України до євроінтеграції, що потребує комплексного аналізу сучасного стану відносин та перспектив їх розвитку.

У бакалаврській роботі розглядаються теоретико-методичні засади торговельно-економічного співробітництва між Україною та ЄС.

У першому розділі бакалаврської роботи узагальнено теоретичні та методологічні засади торговельно-економічного співробітництва між Україною та ЄС. Систематизовано основні принципи економічної інтеграції та розглянуто еволюцію правової бази співробітництва від Угоди про партнерство до Угоди про асоціацію.

У другому розділі бакалаврської роботи проаналізовано сучасний стан торговельно-економічних відносин між Україною та ЄС. Досліджено динаміку та структуру двосторонньої торгівлі, інвестиційне співробітництво та вплив війни на економічні відносини.

У третьому розділі бакалаврської роботи розкрито основні проблеми та перспективи розвитку торговельно-економічного співробітництва між Україною та ЄС. Визначено ключові бар'єри у відносинах та окреслено перспективи поглиблення інтеграції в контексті отримання статусу кандидата в члени ЄС.

Ключові слова: Україна, ЄС, торговельно-економічне співробітництво, європейська інтеграція, Угода про асоціацію, зона вільної торгівлі, двостороння торгівля, інвестиційне співробітництво, економічні відносини.

ABSTRACT

Mishchuk Y. Trade and economic cooperation between Ukraine and the EU at the current stage.

Manuscript. Bachelor's Thesis in Specialty 292 International Economic Relations, EPP International Business. Lesya Ukrainka Volyn National University. Lutsk, 2024. 54 p. English.

The relevance of the research topic is determined by the fact that trade and economic cooperation between Ukraine and the EU is becoming particularly important in the context of Russian aggression and Ukraine's aspirations for European integration, which requires a comprehensive analysis of the current state of relations and prospects for their development.

This bachelor's work examines the theoretical and methodological foundations of trade and economic cooperation between Ukraine and the EU.

The first chapter of the bachelor's work summarises the theoretical and methodological foundations of trade and economic cooperation between Ukraine and the EU. The main principles of economic integration are systematized and the evolution of the legal framework of cooperation from the Partnership Agreement to the Association Agreement is examined.

The second chapter of the bachelor's work analyses the current state of trade and economic relations between Ukraine and the EU. The dynamics and structure of bilateral trade, investment cooperation, and the impact of war on economic relations are studied.

The third chapter of the bachelor's work reveals the main problems and prospects for the development of trade and economic cooperation between Ukraine and the EU. Key barriers in relations are identified and prospects for deepening integration in the context of obtaining EU candidate status are outlined.

Keywords: Ukraine, EU, trade and economic cooperation, European integration, Association Agreement, free trade area, bilateral trade, investment cooperation, economic relations.

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INTRODUCTION

Relevance of the study. Trade and economic cooperation between Ukraine and the European Union is one of the key topics of the current stage of development of the Ukrainian state, as it is directly related to the issue of European integration, economic security, stable development and geopolitical reorientation of the country. Starting from 2014, after the Revolution of Dignity and the beginning of the aggression of the Russian Federation, Ukraine finally defined its foreign policy and economic course towards integration with the EU. This choice found practical embodiment in the signing of the Association Agreement between Ukraine and the European Union, which includes the Deep and Comprehensive Free Trade Area (DCFTA), which opened up new opportunities for access of Ukrainian goods to EU markets, and also contributed to bringing Ukrainian standards, technical regulations and procedures into line with European norms.

However, it is important to emphasize that the process of deepening Ukraine's economic integration with the EU is taking place in conditions of serious external challenges. The full-scale war unleashed by Russia in 2022 has become the most significant threat not only to the territorial integrity and sovereignty of Ukraine, but also to its economic stability. Destroyed production facilities, the loss of part of its export potential, disruption of logistics chains, and the blockade of seaports have all caused significant difficulties for foreign economic activity. In this context, economic cooperation with the European Union has become not only strategic, but also vital, as it allows Ukraine to maintain access to European markets, attract investments, modernize the economy, and receive financial support. In addition, the European Union is currently Ukraine's main trading partner: the EU's share in Ukraine's foreign trade exceeds 40%. Within the framework of the DCFTA, the EU provides Ukraine with preferential access to its market, which stimulates export growth, contributes to improving product quality, introducing modern standards, and expanding production chains. At the same time, there are a number of problems that slow down full-fledged integration: the presence of non-tariff barriers, limited access to certain market sectors, uneven development of internal infrastructure, institutional weakness of regulatory

bodies. All this requires deep scientific understanding and the search for optimal solutions. It involves a deeper adaptation of national legislation to EU norms, more active integration into the EU internal market, including by joining individual sectoral policies, in particular energy, digital, and transport. Accordingly, there is a growing need for scientific support for this process, analysis of risks and opportunities, and the formation of a strategic vision of Ukraine's trade policy in new conditions. Thus, the relevance of this study is due to both geopolitical circumstances and economic feasibility and strategic goals of the state. Deepening cooperation with the European Union should become the basis for the recovery, transformation and long-term growth of the Ukrainian economy. In this context, a scientific understanding of the factors that influence the effectiveness of bilateral economic interaction, as well as the study of ways to optimize it, is extremely necessary and timely.

The purpose of the study is a comprehensive study of the current state and prospects for the development of trade and economic cooperation between Ukraine and the European Union, taking into account internal reforms, external economic challenges and integration processes in Europe.

To achieve outlined purpose, the following **tasks** were identified:

- to examine the theoretical and methodological foundations of trade and economic cooperation between Ukraine and the EU;
- to analyse the legal basis for cooperation from the Partnership and Cooperation Agreement to the Association Agreement;
- to study the principles of the functioning of the Ukraine-EU free trade area;
- to analyse the dynamics and structure of bilateral trade in goods;
- to research investment cooperation between Ukraine and EU countries;
- to assess the impact of the war on Ukraine's economic relations with the EU;
- to identify barriers and challenges in trade and economic relations;
- to determine the prospects for deepening Ukraine's economic integration into the EU internal market;
- develop recommendations for optimising trade and economic cooperation.

The object of the study is trade and economic relations between Ukraine and the European Union.

The subject of the study is the mechanisms, tools and results of the implementation of trade and economic cooperation between Ukraine and the EU at the current stage, as well as the impact of these processes on the socio-economic development of Ukraine.

The materials of the study are official documents of the European Union and Ukraine, in particular the Association Agreement, statistical data of the State Statistics Service of Ukraine, Eurostat, reports of the European Commission, analytical materials of international organizations (OECD, World Bank, IMF), as well as scientific publications, studies of specialized experts and materials of leading economic publications.

Research methods. In writing this qualification work, the following research methods were used: analysis and study of literary sources, works of prominent Ukrainian and foreign scientists, periodicals and thematic press, electronic resources. Important methods include analysis and synthesis of processed information, development of own conclusions and assumptions, comparative method, historical and chronological approach, critical and literary analysis. In addition, statistical analysis methods, economic modelling to assess the effects of integration, expert assessment methods to evaluate policy effectiveness, and a systematic approach to comprehensively study economic relations between Ukraine and the EU were used to process trade and investment data. Graphical and tabular methods were used to visually present the research results and trends in bilateral cooperation.

The practical significance of the results obtained lies in the possibility of their use for the formation of recommendations for improving the trade and economic policy of Ukraine in the context of European integration. The results of the study may be useful for state authorities engaged in foreign economic activities, for analytical centers, as well as for the business community, which is focused on European markets. They can also be used in the educational process within the framework of teaching subjects on international economics and European integration.

Structure of the work. The work consists of an introduction, three chapters, eleven subsections, conclusions and a list of sources used. In the first section, the theoretical and methodological foundations of trade and economic cooperation between Ukraine and the EU are revealed, the evolution of bilateral relations and the legal framework of cooperation are analyzed. In the second section, an analysis of the current state of trade and economic relations between Ukraine and the EU is carried out, including the dynamics of trade in goods and services, investment cooperation and the impact of war on economic ties. In the third section, the problems and prospects for the development of trade and economic cooperation between Ukraine and the EU are substantiated, recommendations for optimizing bilateral interaction are defined.

Approbation of research results and publications.

Mishchuk Yu. Dynamics of investment in ukraine under the influence of russian aggression. Materials of the National Scientific-Practical Student Conference “Business, Technology, Biomedicine: Innovation Insights 2024” of 16 May, 2024. Klaipeda: Klaipėdos valstybinė kolegija, 2024. P.405-413.

CHAPTER 1

THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF TRADE AND ECONOMIC COOPERATION BETWEEN UKRAINE AND THE EU

1.1. Evolution of trade and economic relations between Ukraine and the EU.

The initial stage of trade and economic relations between Ukraine and the European Union covers the period from the declaration of Ukraine's independence in 1991 to the early 2000s. This period was characterized by the establishment of an institutional framework for cooperation, the formation of a legal framework, and the first approximation of Ukraine's economic policy to EU standards.

After the collapse of the Soviet Union, Ukraine chose a course for European integration, which was manifested, in particular, in the desire to establish diplomatic, political, and economic ties with European structures. In 1991, the European Community (the predecessor of the European Union) recognized Ukraine's independence, and diplomatic relations between Ukraine and the EU were established in 1992. In 1993, Ukraine officially declared its strategic goal of integration into the European Union for the first time [24].

The most important document that laid the legal basis for relations between Ukraine and the EU during this period was the Partnership and Cooperation Agreement (PCA), signed on June 14, 1994 in Luxembourg and ratified in 1998. This agreement became the first comprehensive treaty that defined the principles and directions of cooperation between the parties. It covered a wide range of areas: political dialogue, trade, investment, economic cooperation, legal cooperation and institutional mechanisms. The PCA enshrined the parties' obligations to ensure respect for democratic principles, human rights, the principles of a market economy and the rule of law. In the economic dimension, the PCA established the most-favored-nation treatment in mutual trade in goods and services, although it did not envisage the creation of a free trade area. The agreement contributed to the reduction of customs duties, the elimination of some quantitative restrictions and the establishment of a regular economic dialogue between Ukraine and the EU. Although the structure of

Ukrainian exports at that time remained commodity-oriented, and the economy was experiencing a deep transformation crisis, relations with the EU became an important factor in the modernization of Ukrainian foreign economic policy.

During this period, technical assistance from the European Union also began, primarily through the TACIS program (Technical Assistance to the Commonwealth of Independent States). The program contributed to the development of public administration, energy sector reform, improvement of customs administration, and harmonization of standards with European ones.

The initial stage of cooperation laid the fundamental legal and political mechanisms of interaction between Ukraine and the EU, while at the same time revealing the limitations of deep economic integration due to the absence of a free trade zone and Ukraine's insufficient economic adaptability to the requirements of the European market. However, it was during this period that the strategic direction of European integration was initiated, which later determined Ukraine's foreign economic course [23].

The period of deepening trade and economic relations between Ukraine and the European Union began in the mid-2000s and was marked by a transition from basic forms of cooperation to deeper integration, covering not only trade, but also political, legal and institutional coordination. This stage was characterized by the formation of a clearer strategic course of Ukraine for European integration, as well as the growth of the role of the European Union as Ukraine's main trading partner. The key instrument of the new level of interaction was the European Neighborhood Policy (ENP), launched by the EU in 2004 after the Union's eastern enlargement. Ukraine was included among the countries with which the EU sought to build a “ring of good neighborliness”, which provided for the deepening of political, economic, social and cultural ties without the immediate prospect of membership. As part of this initiative, the Ukraine-EU Action Plan was signed in 2005, which became a practical tool for implementing the goals of the ENP. It was not legally binding, but strategically important in nature and defined cooperation priorities in such areas as strengthening democratic institutions, reforming

administrative governance, improving trade policy, environmental protection and energy security.

One of the central components of the Action Plan was the adaptation of Ukrainian legislation to the *acquis communautaire* – the legal system of the European Union. This included the first attempts to harmonize national regulatory acts in the areas of technical regulation, customs control, consumer protection, competition policy and energy. As part of this work, Ukraine adopted the first laws that met European standards, and also initiated institutional reforms necessary to approach European market regulation standards. Although the process was uneven and often superficial, it was during this period that mechanisms for legal and administrative approximation with the EU were formed, which later became the basis for deeper integration [22].

Trade and economic relations also developed in parallel with regulatory developments. The volume of trade between Ukraine and the EU in the second half of the 2000s showed stable growth, although it depended on the general economic situation and fluctuations in world markets. The main items of Ukrainian exports to the EU remained metals, mineral products, agricultural products and chemicals, while imports from the EU consisted mainly of machinery, equipment, pharmaceuticals, cars and food industry products. The volume of trade in services began to grow, in particular in the areas of transport, information technology and tourism.

Overall, this stage was a qualitative leap in the development of Ukrainian-European relations, as for the first time the basis was laid for the systematic reform of Ukraine's domestic policy and economy in accordance with EU standards. Despite significant challenges, both internal and external, the Ukrainian state set a course for European integration, which was crucial for the further development of trade and economic relations with the European Union.

The signing and subsequent implementation of the Association Agreement between Ukraine and the European Union became a decisive stage in the development of bilateral trade and economic relations, consolidating Ukraine's European integration course in a legally binding form. This process had profound political, economic and strategic significance, as it outlined for the first time a real mechanism for Ukraine's

integration into the EU internal market and the approximation of its legislation to the Union's standards [25].

The prerequisites for concluding the Agreement were formed during several years of active dialogue between Ukraine and the EU. Negotiations began in 2007 and aimed to create a new agreement that would replace the 1994 Partnership and Cooperation Agreement, which no longer met the level of ambition of the parties. The main innovation that distinguished the Association Agreement from previous forms of cooperation was the inclusion of provisions on the Deep and Comprehensive Free Trade Area (DCFTA), which was to become not only an instrument of trade liberalization, but also a factor in the structural transformation of the Ukrainian economy. Despite the technical completion of the negotiations in 2012, the process of signing the Agreement acquired a dramatic political context. In November 2013, a few days before the Vilnius summit, the Ukrainian government headed by Mykola Azarov unexpectedly announced the suspension of preparations for signing the Agreement, which became the impetus for mass protests known as the Revolution of Dignity. As a result of the change of power in February 2014, the country's new leadership resumed the European integration course, and on March 21, 2014, the political part of the Agreement was signed, and on June 27, the economic part. The agreement entered into full force on 1 September 2017, following ratification by all EU Member States [26].

With the entry into force of the provisions of the DCFTA between Ukraine and the EU, an asymmetric free trade area was effectively introduced. This meant that Ukraine undertook to fully liberalize access to its own market for goods and services from the EU, while temporary protective mechanisms in the form of tariff quotas and transitional periods were in force for Ukrainian goods on the EU market. However, from the first years of the DCFTA, the European Union became Ukraine's main trading partner, displacing Russia, which had previously remained the leader in the foreign trade balance. The positive effect of the agreement was manifested in the growth of the share of exports to the EU, improving their quality, as well as in the gradual reorientation of Ukrainian business towards European requirements, standards and logistics.

One of the key components of the Agreement was the harmonization of technical regulations, standards and conformity assessment procedures. As part of the implementation of the DCFTA provisions, Ukraine began a reform of the technical regulation system, which consisted in the transition from mandatory Soviet GOSTs to the voluntary application of international and European standards (EN, ISO, IEC, etc.). A national standardization system was created, based on EU principles: in particular, conformity assessment, market surveillance and metrology bodies were introduced. Ukraine undertook to harmonize about 80% of European regulations in priority areas, such as product safety, ecology, energy, health protection, food safety, etc.

The changes also affected customs administration: a number of norms of the EU Customs Code were introduced, information exchange was improved, the number of inspections was reduced, and the fight against smuggling was intensified. Harmonization of technical regulations, in turn, opened the prospect of concluding an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), which would allow Ukrainian goods to move freely to the EU market without re-certification [21].

Overall, the signing and implementation of the Association Agreement initiated a systemic transformation of Ukraine's trade and economic model towards European norms and principles. At the same time, this integration revealed a number of challenges related to the need for deep internal reforms, modernization of production, strengthening of institutional capacity and competition in the open market. However, the very fact of having a clear contractual framework and obligations to the EU became a catalyst for changes that could otherwise have been postponed or blocked by domestic political interests.

1.2. Legal framework of cooperation: from Partnership and Cooperation Agreement to the Association Agreement

The legal basis for cooperation between Ukraine and the European Union was formed gradually, in accordance with the changing political context, economic conditions and European integration aspirations of Ukraine. It underwent a

transformation from general framework agreements to a deeply structured association agreement, which is actually an instrument of Ukraine's integration into the EU internal market. This legal path reflects not only the formal evolution of contractual relations, but also a gradual change in the nature of interaction – from cooperation to elements of political and economic integration [27].

The first and fundamental document that laid the foundation for legal relations between Ukraine and the EU was the Partnership and Cooperation Agreement (PCA), signed on June 14, 1994 in Luxembourg. It entered into force in 1998 after the completion of the ratification procedure by both parties. The PCA had a term of ten years, but was automatically extended every year until the entry into force of a new agreement – the Association Agreement. This document became the first binding international legal act that recognized the sovereignty and independence of Ukraine and established an equal partnership with the EU in a wide range of areas [20].

From a legal point of view, the PCA was a framework agreement that provided for general principles of political dialogue, trade, economic interaction, legal cooperation, science, culture, environmental protection and technical assistance. Of particular importance was the provision on the deepening of market relations and support for economic reforms in Ukraine. The PCA did not create a free trade area, but provided for the most favored nation treatment in mutual trade, an obligation to adhere to the principles of a market economy, protection of human rights, democracy and the rule of law. It also established an institutional mechanism for cooperation, including the Cooperation Council, the Cooperation Committee and a number of subcommittees that coordinated the implementation of the provisions of the Agreement.

The PCA played an extremely important role in the formation of Ukraine's foreign economic policy, but its capabilities became limited over time. In the context of deep economic transformation, political instability and weak institutional capacity, Ukraine could not fully realize the potential laid down in the agreement. In addition, the PCA did not provide for specific mechanisms for legal or regulatory adaptation to EU legislation. In the 2000s, when Ukraine began to clearly declare its course towards European integration, there was a need for a new, deeper agreement that would not

only regulate cooperation but also lay down instruments for gradual integration into the EU internal market. In 2007, Ukraine and the European Union began negotiations on an Association Agreement, which was to become a new generation legal instrument. It provided for the creation of a Deep and Comprehensive Free Trade Area (DCFTA), the harmonization of Ukrainian legislation with the *acquis communautaire* – the EU legal system, the strengthening of political dialogue and cooperation in the field of security, justice, human rights and other strategic areas. The Agreement aimed at the gradual integration of Ukraine into the common European space without granting it the status of a candidate for membership, but it provided for the formal recognition of Ukraine's European aspirations [29].

The signing of the Association Agreement became possible only after the profound political changes that took place in Ukraine in 2013–2014 as a result of the Revolution of Dignity. After the previous government refused to sign the document in November 2013, society reacted decisively, and as a result of the protests, a change of power took place. The new government resumed the European integration course, and in March 2014 Ukraine signed the political part of the Agreement, and in June – the economic part. The Agreement finally entered into force on September 1, 2017, after the completion of all ratification procedures in the EU Member States.

The Association Agreement is binding under international law and is the most ambitious agreement that the EU has ever concluded with partner countries. It contains over 1,200 pages of text and regulates in detail not only trade, but also the reform of the judicial system, consumer protection, product safety standards, environmental protection, energy, labor relations, education, culture, social policy, the fight against corruption, etc. The agreement provides for the gradual implementation of EU legislation into the domestic legal field of Ukraine, which in fact constitutes partial legal integration.

The structure of the Association Agreement between Ukraine and the European Union is extremely complex and multifaceted, which is due to the ambitious goals of the document – not just to regulate political and economic cooperation, but to gradually integrate Ukraine into the EU internal market and adapt its legal system to European

norms. That is why the Agreement is not limited to general political declarations, but contains detailed obligations of the parties regarding reforms, standards, procedures and deadlines for the implementation of individual provisions.

In its structure, the Association Agreement consists of a preamble, seven main sections, annexes and protocols. In the preamble, the parties confirm their desire for close and lasting cooperation, common values of democracy, human rights, the rule of law, and also recognize Ukraine's European aspirations. This part of the text has not only political, but also symbolic significance, since it contains actual confirmation of the possibility of gradual rapprochement of Ukraine with the European Union [28].

The first section of the Agreement is devoted to general principles, in particular the rule of law, good governance, respect for human rights, the fight against corruption, sustainable development, gender equality, the principles of an open economy, etc. They are the basis for all other obligations of the parties. Violation of these principles may be grounds for the temporary suspension of certain provisions of the agreement.

The second section concerns political dialogue, foreign policy and security. It defines the mechanisms for regular consultations between Ukraine and the EU in the field of international policy, cooperation in peacekeeping operations, conflict resolution, non-proliferation of weapons of mass destruction, regional security, etc. This section gives the political dimension of the Agreement a permanent institutional form.

The third chapter – “Freedom, Security and Justice” – covers issues of justice, protection of personal data, migration policy, asylum, fight against organized crime, money laundering, trafficking in human beings and cybercrime. Within this block, Ukraine has undertaken to gradually adapt its criminal, procedural and administrative legislation to European standards, as well as to strengthen the institutions of the rule of law.

The most extensive and, from an economic point of view, key is the fourth chapter, dedicated to the Deep and Comprehensive Free Trade Area (DCFTA). It regulates the legal basis for the functioning of the free trade area, the obligation to eliminate tariffs, quotas and non-tariff barriers, as well as the harmonization of

Ukrainian laws in the areas of technical regulation, sanitary and phytosanitary measures, customs administration, protection of intellectual property rights, public procurement, competition and energy. The provisions of this section are the most detailed, and their implementation provides for the gradual adaptation of specific EU directives and regulations specified in the annexes [19].

The fifth section of the Agreement covers economic and sectoral cooperation, in particular in the fields of energy, transport, environment, agriculture, tourism, science, education, information society, healthcare, social policy, and consumer protection. It is important that for each area specific obligations are provided for in terms of approximation of legislation with EU law and the deadlines for its implementation.

The sixth section regulates financial cooperation, technical assistance mechanisms, and institutional support for reforms by the EU. It establishes the legal basis for Ukraine's participation in assistance programs, in particular within the framework of the European Neighborhood Policy (ENP) instrument, as well as the conditions for the use of funds, monitoring of effectiveness, and auditing.

Finally, the seventh section concerns institutional, general, and final regulation. It defines the system of association bodies: the Association Council, which adopts political decisions on the implementation of the Agreement, the Association Committee – a body for current implementation issues, as well as subcommittees on individual areas, in particular on trade issues. It also defines procedures for resolving disputes between the parties, the possibility of revising the provisions of the agreement and mechanisms for its temporary suspension.

Starting in 2022, Ukraine's European integration entered a qualitatively new phase, defined by unprecedented political, security and economic challenges associated with the full-scale aggression of the Russian Federation. In response to the threat to the sovereignty and stability of the state, Ukraine took a decisive step towards membership in the European Union. Already on February 28, 2022, four days after the start of the invasion, the Ukrainian authorities officially submitted an application for membership in the EU, emphasizing the strategic aspiration for full-fledged entry into the European political, economic and legal space. This step was accompanied by large-scale

diplomatic support from both the EU member states and the society within Ukraine, which viewed membership in the European Union not only as a foreign policy goal, but as an existential choice for national development. In June 2022, Ukraine received an official positive assessment from the European Commission. On 17 June, the European Commission recommended granting Ukraine candidate status for membership, recognising, in particular, significant progress in political stabilisation, strengthening democratic institutions and the fight against corruption. This recommendation was supported on 23 June 2022 by the European Council, which adopted a historic decision to grant Ukraine the status of candidate country for accession to the European Union. This decision demonstrated the EU's recognition of Ukraine's political will and real potential for transformation in line with European standards.

After receiving candidate status, Ukraine began active work on implementing seven key recommendations of the European Commission. They covered areas such as reform of the Constitutional Court, continuation of judicial reform, strengthening the fight against corruption (in particular, the appointment of the heads of the NABU and SAPO), combating money laundering, introducing anti-corruption monitoring, ensuring the rights of national minorities and harmonising media legislation with European standards. A significant part of these conditions had already been met by the end of 2023, as confirmed by independent international observers, in particular the Venice Commission and GRECO.

In December 2023, at the European Council summit, the Member States decided to open negotiations on Ukraine's accession to the EU. Given the circumstances of martial law, this step became an extremely powerful signal of support from the European Union and testified to the EU's readiness to adapt its own enlargement mechanisms to the challenges of the new geopolitical reality. The formal opening of the negotiation process took place in June 2024, when a negotiating framework was agreed – the so-called “Negotiating Framework”, which provides for the gradual opening of 35 negotiation clusters, aligned with the *acquis communautaire* – the EU's legal *acquis*.

During the same period, Ukraine began to actively join certain elements of the EU internal market even without the status of a full member. For example, in 2023, Ukraine joined the EU Single Market Programme in the areas of supporting small and medium-sized businesses, simplifying the regulatory environment, developing export potential and standards. Ukraine also continued to participate in such programs as Horizon Europe (research and innovation), Digital Europe, Erasmus+ and Creative Europe. Participation in these programs is not only a formal rapprochement, but also a practical tool for preparing for integration – through the alignment of policies, administration, procedures and standards. As of 2025, Ukraine has begun independent internal screening of legislation (self-screening) to determine the degree of compliance of national law with the EU acquis. Based on this analysis, a technical basis is being prepared for the opening of negotiation chapters. All these processes are accompanied by the parallel modernization of the Ukrainian economy, the digitalization of public administration, the development of infrastructure and financial transparency, which together should create the prerequisites for formal accession to the EU in the medium term. Thus, the period from 2022 to 2025 has become, without exaggeration, a breakthrough in Ukraine's European integration course. In the conditions of war, the state not only preserved, but also significantly strengthened its European integration positions, receiving a new status, launching the negotiation process and beginning actual integration into the internal market of the European Union. This indicates the strategic irreversibility of Ukraine's course towards a European future.

The agreement has numerous annexes containing specific lists of EU directives and regulations to be implemented into Ukrainian legislation. These annexes are actually “road maps” of legal adaptation. Each document contains the name of the European act, the scope of application, the implementation period and the body responsible for monitoring. For example, in the field of technical regulation, Ukraine has undertaken to implement about 27 EU regulations and directives, and in the field of sanitary measures - over 250 regulatory acts.

1.3. Ukraine-EU Free Trade Area: principles of functioning and key provisions

The free trade area between Ukraine and the European Union, operating within the framework of the Deep and Comprehensive Free Trade Area (DCFTA), is a key element of the Association Agreement, which entered into force on 1 September 2017. It not only establishes a free trade regime between Ukraine and the EU, but also initiates a deep integration of the Ukrainian economy into the internal market of the European Union. In this context, the free trade area is not simply an instrument for liberalizing trade in goods and services, but rather a multi-level system of regulatory and institutional interaction aimed at adapting the Ukrainian economy to EU standards and practices.

The main legal feature of the DCFTA is that it provides for an asymmetric approach to the process of market opening. Even before the Agreement entered into force, the European Union granted Ukraine autonomous trade preferences – the unilateral abolition of customs duties on most Ukrainian goods. Instead, Ukraine is gradually liberalizing access to its market for European goods during the transition period specified in the Agreement. This phased approach provides Ukrainian producers with the adaptation period necessary to increase competitiveness and implement new production standards (Table 1.1).

The free trade area is based on the mutual elimination of customs duties, quantitative restrictions and other barriers to trade in goods, with the exception of certain sensitive categories for which transitional periods or exclusions are provided. At the same time, the principle of free trade is combined with a number of obligations that go beyond traditional liberalization – which is why the area was called “deep and comprehensive”. In particular, the DCFTA covers issues of technical regulation, sanitary and phytosanitary measures, customs administration, protection of intellectual property rights, public procurement, the energy market and competition rules [18].

One of the key principles of the DCFTA is the harmonization of Ukrainian legislation with the *acquis communautaire* – the EU legal system. Ukraine undertakes not only to abolish customs duties, but also to harmonize its technical regulations, standards, conformity assessment procedures, phytosanitary rules and other regulatory

acts with European standards. This means that access to the EU market for goods is ensured not only by the formal removal of customs barriers, but also through the compliance of products with European requirements for safety, quality and consumer characteristics.

Table 1.1

Key Provisions of the Association Agreement Regarding the FTA

Provision	Description
Liberalization of Trade in Goods	Gradual elimination of most customs duties and quantitative restrictions (quotas) on industrial and agricultural goods. Establishment of tariff quotas for certain sensitive agricultural products.
Liberalization of Trade in Services	Creation of favorable conditions for mutual access to service markets in various sectors (financial services, telecommunications, transport, professional services, etc.).
Sanitary and Phytosanitary Measures (SPS)	Alignment and approximation of standards in the area of food safety, animal and plant health. Mutual recognition of certain control measures.
Technical Barriers to Trade (TBT)	Cooperation to reduce technical barriers through the harmonization of standards, conformity assessment procedures, and metrology.
Rules of Origin	Definition of the criteria that goods must meet to be considered originating from the territory of Ukraine or the EU and benefit from the preferential regime.
Protection of Intellectual Property (IP)	Ensuring adequate and effective protection of intellectual property rights in accordance with international standards. Cooperation in the fight against IP rights infringements.
Public Procurement	Granting mutual access to public procurement markets at central and local levels in accordance with defined procedures and thresholds.
Competition	Ensuring fair competition by implementing anti-monopoly legislation and controlling the abuse of a dominant position.

Source: compiled by the author based on [13].

In the field of technical regulation, Ukraine is gradually introducing European standards instead of outdated Soviet GOSTs. This involves the creation of a system of notified bodies entitled to certify products according to European rules, as well as the transition to the European model of the “new approach” in standardization. One of the goals of this process is the conclusion of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), which will allow the recognition of certification of Ukrainian goods in the EU without additional testing [31].

In the field of sanitary and phytosanitary measures (SPS), Ukraine has committed to adapting legislation in the areas of veterinary control, food safety, animal health, plant protection and production hygiene. These rules are extremely important for the export of agricultural products to the EU. The European Union has high requirements for product quality and safety, so compliance with SPS standards opens up the opportunity for Ukrainian producers to enter the highly profitable EU markets for food and agricultural goods.

An important condition for the functioning of the DCFTA is effective customs administration. The parties are obliged to modernize customs procedures, ensure transparency, electronic declaration, mutual recognition of procedures and fight against corruption. The Association Agreement contains special provisions on trade facilitation, transit facilitation, customs control and customs cooperation.

Another important area is access to public procurement. Within the framework of the Association Agreement, Ukraine is gradually opening its procurement market to European companies, while at the same time gaining the opportunity to admit its enterprises to participate in tenders on EU markets. This requires bringing the legislation into line with the EU directives on public procurement, creating a transparent electronic system, and ensuring non-discriminatory access for all participants to tender documentation [17].

In addition, the Agreement regulates competition rules, providing for the gradual approximation of Ukraine's antitrust legislation to European law. This includes control over abuse of monopoly positions, state aid, concerted actions of companies, and transparency in the process of granting state subsidies.

In general, the DCFTA creates a legal regime that is as close as possible to the EU internal market, although without granting membership. It allows Ukrainian companies to operate according to principles similar to the conditions of the European business environment, as well as to gradually be included in global value chains.

CHAPTER 2

CURRENT STATE OF TRADE AND ECONOMIC RELATIONS BETWEEN UKRAINE AND THE EU

2.1. Analysis of dynamics and structure of bilateral trade in goods

Analysis of the dynamics and structure of bilateral trade in goods between Ukraine and the European Union demonstrates the gradual transformation of Ukraine's foreign economic profile, adaptation to European standards and ever deeper integration into the EU internal market. Starting from 2014, when the Association Agreement and the implementation of the Deep and Comprehensive Free Trade Area were signed, trade and economic relations between Ukraine and the EU have acquired a new character. The European Union has become Ukraine's main trading partner, overtaking the Russian Federation, with which significant trade flows had been formed until then. Such a change in geo-economic orientation was not only a political signal, but also a consequence of a real redistribution of export and import flows, which were increasingly focused on the West [32].

Trade dynamics indicate a gradual increase in exports and imports between the parties, despite the challenges associated with the war in Eastern Ukraine, the global COVID-19 pandemic, and subsequently the full-scale Russian aggression that began in 2022. For example, between 2016 and 2021, trade turnover between Ukraine and the EU grew steadily, reaching over 50 USD billion in 2021. The EU's share in total Ukrainian exports was over 40%, and in imports – about 35%, which indicates a significant European presence in the economic life of Ukraine. In the following years, despite geopolitical and logistical disruptions, bilateral trade volumes continued to grow. Particularly in 2023 and 2024, the figures demonstrate a sharp rise in both exports and imports, driven by trade liberalization measures and the EU's strategic support for Ukraine.

The evolution of trade volumes over the last decade is detailed in Diagram 1 below, which provide a comprehensive overview of Ukraine's exports, imports, and total trade turnover with the European Union from 2014 to 2024.

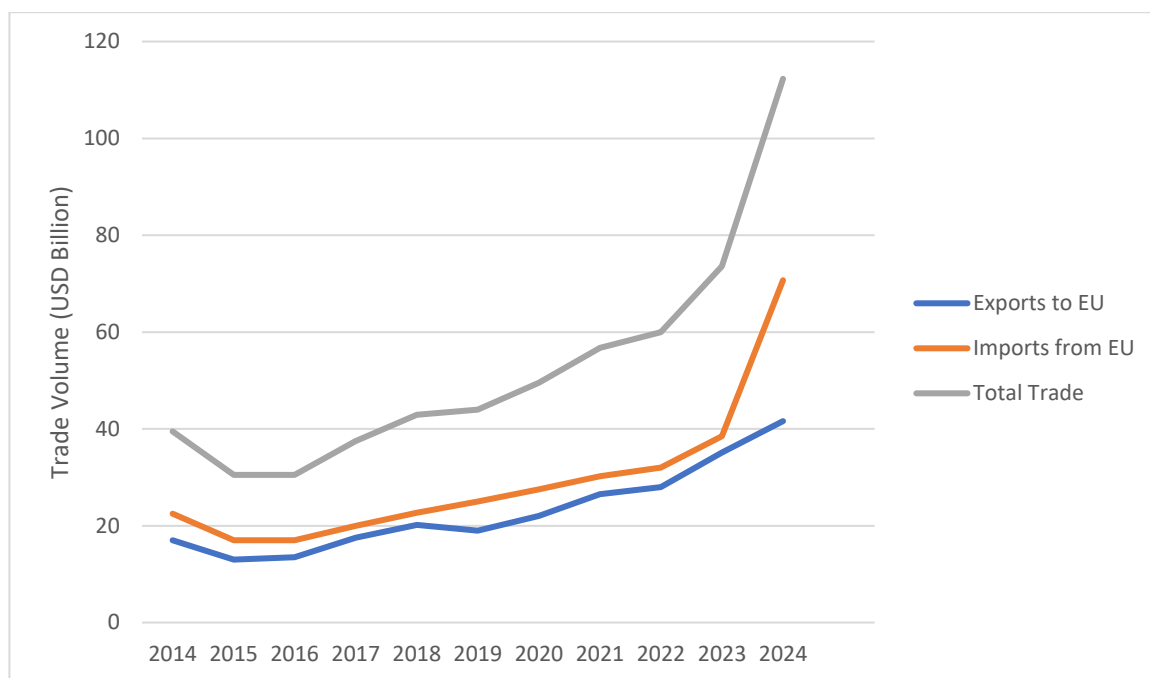


Figure 1: Dynamics of trade in goods between Ukraine and the EU (2014–2024), USD billion.

Source: compiled by the author based on [5].

Changes are also observed in the structure of trade. In the field of exports to the EU, raw materials traditionally play a leading role, in particular agro-industrial products, metals, products of plant origin and oils. Agricultural products, especially grain crops, sunflower oil and oilseeds, consistently occupy leading positions in the export basket. Industrial goods, in particular ferrous metals, mechanical engineering products, electrical products, chemical products, also have a significant share, although their share varies depending on current market conditions, global prices and domestic production capabilities. It is worth noting that in recent years there has been a gradual increase in the share of processed products, which indicates the beginning of a shift from a raw material to a production model of exports.

On the import side from the European Union, goods with high added value dominate. These are primarily machines, mechanisms, vehicles, electrical equipment, pharmaceuticals, chemicals, finished food products, as well as textiles, plastics, paper products. This import structure corresponds to the patterns of trade between countries with different levels of technological development, where one side supplies raw

materials or intermediate goods, and the other supplies final products with a higher value [14].

An important trend is the expansion of the range of goods traded. While at the beginning of the DCFTA, trade was concentrated around a limited number of main commodity items, over time, Ukraine's export portfolio has diversified. This reflects the process of manufacturers adapting to the requirements of the EU market, including sanitary, phytosanitary and technical standards. After the implementation of some provisions of the Association Agreement, Ukrainian enterprises began to more actively enter the European market with new types of products, in particular food products, furniture, light industry and organic products.

The growth in trade volumes is also supported by regulatory changes. The Association Agreement provides for a gradual reduction or abolition of customs duties, which reduces the costs of export-import operations. At the same time, the share of Ukrainian products subject to tariff quotas by the EU is significant, especially in the field of agricultural exports. For example, quotas for duty-free supplies of wheat, corn, barley, chicken or honey are often exhausted during the first months of the year, which indicates high demand for Ukrainian products and at the same time restrictions on access under the terms of the agreement. This issue was repeatedly raised by the Ukrainian side in negotiations to revise the terms of the DCFTA [16].

In the conditions of a full-scale war in 2022, the EU adopted a number of decisions on temporary full trade liberalization, in particular the abolition of all customs duties, tariff quotas and protective measures. This allowed Ukrainian exports to partially compensate for the loss of other markets and logistics routes. In addition, the EU actively worked on the creation of so-called “solidarity routes” – transport and logistics channels for the export of Ukrainian goods, especially grain. All this contributed to the preservation of trade exchange even in wartime [15].

Thus, the analysis of the dynamics and structure of bilateral trade in goods between Ukraine and the EU indicates not only quantitative growth, but also a qualitative change in trade relations. The vector of development is shifting from simple

mutual liberalization to deep regulatory integration, where the harmonization of standards, technical requirements and economic policy plays a decisive role.

In 2023, the total trade turnover between Ukraine and the EU reached €61.9 billion, which is more than double the figures of 2016, when the Deep and Comprehensive Free Trade Area (DCFTA) came into effect. The EU's share in Ukraine's foreign trade was 56%, confirming the EU's status as Ukraine's main trading partner [33].

Trade volumes continued to grow in 2024. According to the State Customs Service of Ukraine, exports of goods increased by 18.5% compared to 2023, to 41.6 USD billion, and imports – by 11.3%, to 70.7 USD billion. Ukraine's total foreign trade turnover amounted to 112.3 USD billion.

In 2023, Ukraine's main export goods to the EU were:

Cereal crops – 21.9% of total exports.

Vegetable and animal fats and oils – 9.2%.

Ores, slags and ash – 8.3%.

Oilseeds – 8.2%.

Ferrous metals – 7.9%.

In 2024, agricultural trade between Ukraine and the EU reached a record level of 17 USD billion, which is 3% more than in 2022. Ukraine's main trading partners in the agricultural sector were Spain, Poland, the Netherlands, Germany, Italy, Romania, France and Belgium, which together provided 80% of agricultural trade with the EU.

In 2023, the main imported goods from the EU to Ukraine were:

Mineral products – 16.6% of total imports.

Cars – 9.9%.

Machinery and mechanisms – 9.1%.

Electrical equipment – 8.9%.

Weapons and ammunition – 4.3%.

In 2024, Ukraine imported agricultural products from the EU worth about 4 USD billion, which is 9% more than in 2023. The main imported goods were beverages (484 USD million), various food products, extracts and concentrates (405 USD million),

animal feed and waste (356 USD million), cocoa and chocolate products (USD289 million), and dairy products, in particular cheeses (277 USD million).

In 2024, Ukraine had a positive balance in agricultural trade with the EU of about 9 USD billion, which indicates the competitiveness of Ukrainian agricultural products on the European market [34].

In 2024, the European Commission decided to restore customs duties on imports from Ukraine of oats, sugar and eggs, which previously entered the EU market duty-free after the Russian invasion of Ukraine in February 2022. This decision was made in response to the growth of exports from Ukraine, which made it the third largest supplier of agri-food products to the EU in 2023. The restoration of duties is seen as a reaction to the dissatisfaction of agricultural producers in the EU on the eve of the European elections.

The dynamics and structure of bilateral trade in goods between Ukraine and the EU in 2023-2024 demonstrate the deepening of economic integration, the growth of trade volumes and the gradual diversification of the commodity structure. At the same time, the challenges associated with regulatory changes and the need to adapt to EU standards remain relevant for Ukrainian producers [12].

2.2. Trade in services between Ukraine and EU countries

Trade in services between Ukraine and the European Union is an important and dynamic segment of bilateral economic cooperation, which has significantly intensified after the signing of the Association Agreement and the entry into force of the Deep and Comprehensive Free Trade Area. Although goods traditionally account for the bulk of mutual trade, the services sector is gaining increasing importance, especially in the context of the digitalization of the economy, the global redistribution of value chains and the development of human capital in Ukraine. This area is developing particularly actively in the areas of transport, telecommunications, computer and information technologies, financial services, consulting and education. According to the State Statistics Service of Ukraine, over the past decade the EU has

consistently remained Ukraine's main partner in trade in services. Even before the start of the full-scale war in 2022, the volume of trade in services with the European Union accounted for more than a third of Ukraine's total exports of services. In 2021, for example, the EU's share in total Ukrainian services exports exceeded 35%, and in 2023, according to some estimates, it reached 40–45%, despite the difficult geopolitical conditions. The total volume of services exports from Ukraine to the EU countries in 2023 is estimated at approximately 6–7 USD billion, while imports of services from the EU to Ukraine are at 3–4 USD billion, which creates a positive balance in trade in services for Ukraine. The biggest breakthrough in this segment is associated with the development of the IT sector, which has become one of the key export drivers of the Ukrainian economy. Services in the field of computer programming, software development, information systems support and business process outsourcing are in high demand among European companies. Ukrainian IT companies are actively working with clients from Germany, the Netherlands, the UK, Poland and the Scandinavian countries. This segment provides stable foreign exchange earnings, even in conditions of military operations, and demonstrates the ability to adapt in times of crisis. In 2022–2023, despite the war, the share of IT services in total exports of services was over 45%, and the EU remained a key market for this type of activity. In addition to IT, transport services, in particular rail, road and sea transportation, play a significant role. Due to the destruction of port infrastructure in southern Ukraine and the blockade of sea routes, the importance of land transport in trade with the EU has increased sharply after 2022. Ukraine and the EU quickly agreed on an interim Agreement on the Liberalization of Road Freight Transport, which provides for the mutual cancellation of permits for the transportation of goods. This allowed Ukrainian carriers to maintain access to the EU market and support critical logistics in wartime. Many transport companies that previously operated domestically or served eastern destinations have reoriented themselves to the western borders and integrated into the logistics chains of the European Union countries. At the same time, business, consulting and educational services are also actively developing. Ukrainian specialists are increasingly providing audit, engineering consulting, design, marketing and customer support services on an

outsourced basis. European companies, given the competitive cost and quality of Ukrainian specialists, are increasingly concluding contracts with domestic service providers. After the war, thousands of Ukrainian specialists left for the EU countries, continuing to work for Ukrainian companies remotely or creating subsidiaries in the territory of member states. This contributed to the further integration of the Ukrainian service sector into the European market [13].

A special place is occupied by interaction in the field of financial services, in particular insurance, payment services, banking services and e-commerce. Although the Ukrainian financial market is not yet fully integrated with the European one, there is a tendency towards harmonization of rules and gradual adaptation of financial instruments to EU directives, in particular within the framework of the implementation of the provisions of the Association Agreement. Since 2022, Ukrainian payment systems and banks have significantly intensified cooperation with European financial institutions to ensure cross-border payments, account opening, integration into SEPA (Single Euro Payments Area), which is especially relevant against the background of the growth of international transfers, assistance to refugees and the work of international charitable organizations.

The Association Agreement provides for the gradual approximation of Ukrainian legislation in the field of trade in services to European legislation, including rules for the provision of services, recognition of professional qualifications, liberalization of the postal, telecommunications and audiovisual services market. This creates the basis for further deepening cooperation, in particular in the context of the implementation of the principles of the EU internal market.

In conclusion, it is worth noting that trade in services between Ukraine and the EU is not only an economic instrument, but also an important mechanism for technological, professional and institutional convergence. This area demonstrates flexibility, adaptability and high growth potential even in critical conditions. Further harmonization of standards, simplification of procedures, digitalization of public services, integration into European infrastructures and mobility of specialists can

become catalysts for further expansion of the role of the services sector in bilateral trade between Ukraine and the EU.

In 2024, trade in services between Ukraine and the European Union continued to show steady growth, despite the challenges associated with the war and economic instability. The total volume of exports of services from Ukraine increased by 3.8% compared to the previous year and reached 17.2 USD billion. At the same time, imports of services decreased by 10%, which indicates a positive balance in trade in services. The IT sector traditionally accounts for the largest share in exports of services. In 2024, exports of computer services amounted to 6.4 USD billion, which is 4.2% less than in 2023. This decrease is explained by the partial movement of Ukrainian IT specialists abroad and a change in the structure of orders. At the same time, transport services increased by 7.7% and reached 4.1 USD billion, which is associated with the adaptation of logistics routes and the intensification of transportation to EU countries. Professional and consulting services also showed growth of almost 15%, and technical and trade services – by 11% [35].

Imports of services from the EU to Ukraine in 2024 decreased by 10%, which is the second consecutive year of decline. The largest share in imports of services is occupied by spending by Ukrainian citizens abroad, in particular refugees, who accounted for more than 60% of total imports of services (14.2 USD billion). However, this category decreased by 17.2% compared to 2023. Imports of transport services increased by 12.9%, and professional and consulting services – more than doubled (+104.2%). Technical and trade services also increased by 63.2%, and imports of computer services – by 24.7%.

Overall, trade in services between Ukraine and the EU in 2024 was characterized by a steady growth in exports, especially in the IT and transport sectors, as well as a decrease in imports, which led to a positive balance in trade in services. These trends indicate Ukraine's gradual integration into the European services market and adaptation to new economic realities [13]. The diversification of Ukraine's service exports to the EU demonstrates the country's growing competitiveness in high-value-added sectors.

In order to better understand the structure of these exports, it is useful to visualize the main categories of services provided by Ukraine to the EU in 2024 (Figure 2).



Figure 2: Structure of Ukraine's service exports to the EU in 2024, %

Source: compiled by the author based on [13].

2.3. Investment cooperation between Ukraine and EU countries

Investment cooperation between Ukraine and the European Union countries is a key aspect of bilateral economic relations, which plays an important role in the transformation of the Ukrainian economy, modernization of infrastructure, introduction of innovations and creation of new jobs. Since the 1990s, when Ukraine became an independent state, the EU countries have gradually become one of the main investors in the national economy. However, the real impetus for cooperation came after the entry into force of the Association Agreement, which created a predictable and transparent regulatory environment for investors, brought Ukrainian legislation closer to the *acquis communautaire* and deepened Ukraine's integration into the internal market of the European Union. The European Union has consistently remained the largest source of foreign direct investment in Ukraine. According to the National Bank of Ukraine, the share of EU member states in the total volume of FDI as of 2023 exceeds 70%. Among the leading investors are Cyprus, the Netherlands, Germany,

Austria, Poland, France and Luxembourg. It is important to consider that investments from Cyprus and the Netherlands in many cases have the features of “reinvested capital” of Ukrainian origin, which passed through offshore or transit jurisdictions [11].

At the same time, investments from other countries, such as Germany or Austria, are often strategic and have a long-term nature. The structure of FDI is dominated by investments in industry, the financial sector, agriculture, trade, logistics, IT and renewable energy. In recent years, there has been an increase in the interest of European investors in projects related to the modernization of energy infrastructure, the construction of logistics hubs near the western border, the development of the processing industry and integration into the value chains of EU countries. After the full-scale invasion of Russia in 2022, the structure of investment interaction has undergone significant changes. A significant part of investors has temporarily curtailed or suspended projects in the east and south of Ukraine, but at the same time new initiatives have emerged in the western regions of the country. European companies are opening new production facilities in Lviv, Zakarpattia, Ivano-Frankivsk regions, considering these territories as safer zones with access to the EU market, a qualified workforce and a relatively stable business environment. Investments related to technology transfer, personnel training and environmental innovations are gaining particular importance. In this context, the programs of the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and other EU financial institutions play an important role. They provide loans, grants and technical assistance for the development of infrastructure, energy efficiency, digitalization and small and medium-sized businesses. For example, the EIB finances the renewal of urban transport, the modernization of water and sewage systems and the reconstruction of medical facilities. The EBRD supports the banking sector, agribusiness and the restoration of energy capacities [1].

After 2022, the priorities of EU investors have shifted significantly towards the “reconstruction of Ukraine”. A number of initiatives have emerged aimed at creating conditions for large-scale attraction of private capital from the EU for post-war reconstruction. These include, in particular, military risk insurance, the development

of special guarantee funds for investors, and the creation of public-private partnership mechanisms. The European Commission, in cooperation with international financial institutions, is working on the formation of a long-term financial platform for Ukraine, which should provide access to resources for the implementation of structural reforms, infrastructure projects and the transition to a sustainable economy.

Another aspect of investment cooperation is the creation of conditions for the integration of Ukrainian business into European production chains. The EU is increasingly considering Ukraine as a future participant in the internal market, where the production of critical components, raw materials, as well as the development of “green” energy, in particular hydrogen, can be concentrated. Ukrainian enterprises that have been certified according to European standards and have demonstrated reliability of supply are gradually integrating into the supply networks of European corporations, especially in such sectors as mechanical engineering, food industry and electronics [10].

Investment cooperation with the EU is not only a source of financial resources, but also an important factor in increasing trust in Ukraine as a partner, contributes to the approximation of business standards to European norms, increases the competitiveness of the national economy and stimulates the development of the institutional environment. Further success in this area will depend on the effectiveness of internal reforms, reducing regulatory pressure, ensuring the rule of law, combating corruption and creating a stable institutional environment that will ensure long-term protection of European investors in Ukraine.

2.4. Impact of the war on Ukraine’s economic relations with the EU

The full-scale war unleashed by the Russian Federation against Ukraine in February 2022 has significantly affected all aspects of Ukraine’s economic relations with the European Union. At the same time, this impact has been ambiguous: on the one hand, the war has had profound destructive consequences for the economy, destroyed logistics chains, infrastructure, reduced production capacity and restrained investment activity. On the other hand, it has stimulated unprecedented support from

the EU, intensified economic integration processes and created new conditions for rethinking the forms and mechanisms of cooperation [36].

First of all, the war has led to a sharp drop in Ukraine's GDP in 2022 (according to the NBU, by more than 29%), a decrease in exports, especially agricultural products, metallurgy, and mechanical engineering. The closure of ports on the Black Sea has practically paralyzed traditional export routes to EU countries and the Third World. In response to this crisis, the EU introduced unprecedented temporary trade measures in April 2022, including the suspension of import duties, tariff quotas and anti-dumping measures on Ukrainian goods. This allowed Ukrainian goods to maintain access to the EU market and partially compensate for the loss of other markets [9].

At the same time, due to the blockade of ports and the destruction of infrastructure, export flows were reoriented to land routes across the western border. This stimulated the development of new logistics routes and significantly increased the load on the border infrastructure between Ukraine and neighboring EU countries - Poland, Slovakia, Romania and Hungary. Under pressure from circumstances, the "Solidarity Lanes" mechanism was implemented, ensuring the rapid movement of Ukrainian goods to the EU via road, rail and river channels. At the same time, the role of border regions as transit and production hubs increased.

The EU has also become a key partner for Ukraine in the field of humanitarian, macro-financial and technical assistance. Since 2022, the European Union has provided Ukraine with tens of billions of euros in grants, loans, budget support and technical assistance. Over 18 billion euros were allocated under the Macro-Financial Assistance Instrument in 2023 alone, becoming the main source of support for the Ukrainian state budget. EU assistance covers not only financial support, but also accelerated integration into the single market – for example, through mutual recognition of certain certificates, opening of the transport market, abolition of roaming, etc. The war has also accelerated the adaptation of Ukrainian legislation to EU law, as Ukraine received candidate status for accession to the European Union in June 2022. In this context, economic relations are no longer only determined by the Association Agreement, but are considered in the broader context of future full membership. The role of sectoral

integration is growing – in the energy sector, the digital market, and transport. An example is the synchronization of the Ukrainian energy system with the European ENTSO-E, which took place in March 2022.

The investment sphere has undergone multidirectional changes: on the one hand, the total volume of investments has decreased due to risks, on the other hand, there is an increase in interest in the long-term reconstruction of the country. In 2023–2024, the European Union and individual member states initiated the creation of special instruments to protect investors from military risks and to attract private capital to reconstruction projects. In particular, a special Ukrainian Recovery Fund is being developed within the framework of the Ukraine Facility program, which provides for guarantees, loans and co-financing.

Overall, the war not only transformed the form of economic relations between Ukraine and the EU, but also deepened them in content. The European Union is gradually moving from the position of a trading partner to the role of a full-fledged economic ally with a high level of political solidarity, strategic coordination and a long-term vision of Ukraine's integration into a common economic space. It is this depth of relations that will determine the future architecture of Ukraine's post-war economy and its place in the European space.

CHAPTER 3

PROBLEMS AND PROSPECTS FOR DEVELOPMENT OF TRADE AND ECONOMIC COOPERATION BETWEEN UKRAINE AND THE EU

3.1. Barriers and challenges in trade and economic relations

Barriers and challenges in trade and economic relations between Ukraine and the European Union are shaped by both the foreign policy situation and domestic economic, institutional and regulatory factors. Despite the strategic depth of the partnership, the existence of the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA), mutual trade and economic integration face a number of significant difficulties that hinder the realization of the full potential of cooperation. One of the key barriers remains the technical, sanitary and phytosanitary non-compliance of Ukrainian goods with EU norms and standards. Despite progress in the harmonization of regulations, a significant part of Ukrainian products needs to be adapted to strict European requirements regarding food safety, labeling, quality control, conformity of industrial products, certification and traceability. This is especially critical for the agricultural sector, where barriers often cause temporary restrictions or inspections by national regulators of member states.

Another challenge is the uneven access of Ukrainian goods to the European market. Although general tariff access has been eased, non-tariff barriers – such as quotas, administrative procedures, transit restrictions – remain significant. For example, some EU countries temporarily restricted imports of agricultural products from Ukraine in 2023 due to domestic pressure from farmers and the risks of oversaturation of local markets. This demonstrated Ukraine's vulnerability to political changes within the EU, where the issue of national market protection may dominate over the principles of solidarity [4].

Infrastructure constraints are also a powerful factor inhibiting trade development. The destruction of port and rail infrastructure, narrow bandwidths on the western border, lack of logistics storage capacity, and overloading of goods on European tracks – all this creates delays, additional costs, and uncertainty in supply

chains. In wartime, these barriers are only exacerbated, underscoring the need for strategic investments in border infrastructure, logistics hubs, multimodal transportation, and the digitalization of customs procedures.

Another serious obstacle remains the unevenness of the competitive environment. European manufacturers have access to cheaper credit, a stable legal environment, developed infrastructure, and support systems. Ukrainian exporters often face high transaction costs, exchange rate volatility, counterparty risk, lack of institutional trust, and political unpredictability. This reduces the attractiveness of Ukrainian goods even when there is demand [37].

Institutional challenges are associated with the slow implementation of reforms, excessive bureaucracy, corruption, a weak legal system, and the imperfect work of state regulators. Despite efforts to adapt to European legislation, supervision, licensing, and inspection mechanisms remain fragmented or insufficiently effective. The EU has repeatedly drawn attention to the need to improve the system of protection of intellectual property rights, state aid, and transparency of public procurement.

Regarding internal barriers in the EU, sometimes there are manifestations of protectionism, when individual countries apply additional national regulations that complicate the import of Ukrainian goods. Although formally they do not contradict the Association Agreement, in practice this creates asymmetries in access conditions. In addition, investigation procedures on anti-dumping or origin of goods can be used as a tool of regulatory pressure.

At the strategic level, a major challenge is ensuring predictability of relations in conditions of high geopolitical uncertainty. Both Ukraine and the EU have to adapt to the dynamics of the security situation, economic turbulence, risks of energy crises, as well as a difficult macroeconomic situation. Issues of energy security, defense economics, and dependence on third markets (for example, China) are becoming increasingly relevant.

Despite the existence of the listed barriers, Ukraine still retains significant potential for further integration into the European economic space. Solving the outlined problems will depend on political will, the effectiveness of reforms, strengthening

mutual trust, as well as active participation in the processes of forming a new architecture of the EU's trade and economic relations with candidate countries.

One of the deeper challenges remains the so-called regulatory divergence. The Association Agreement provides for the gradual harmonization of Ukrainian legislation with EU law, in particular in areas such as technical regulation, competition policy, consumer protection, state aid, energy and the environment. However, harmonization requires not only the adoption of formal laws, but also the effective implementation of standards, procedures, institutional capacity of state authorities, and business adaptation. In reality, this process is taking place more slowly than expected due to limited resources, bureaucratic resistance, political turbulence and military risks. As a result, Ukrainian manufacturers are not always able to obtain recognition of their certificates in the EU or are forced to undergo additional conformity assessment procedures. Another significant barrier is the asymmetry of market access. Ukraine has opened the market for goods and services in accordance with its obligations under the Association Agreement, while Ukrainian exporters still face restrictions on the EU market in the form of tariff quotas, special control procedures and phytosanitary inspections. For example, despite the full liberalization of trade in 2022–2024 (temporary abolition of tariffs and quotas), there have been repeated situations when individual EU countries (Poland, Hungary, Slovakia, Romania) introduced unilateral restrictions on the import of Ukrainian grain. This demonstrates that formal rules do not always guarantee unhindered access if national political interests conflict with the principles of the single market [38].

From the Ukrainian side, the challenges often lie in the instability of export policy, the fragmentation of state support for exports, as well as weak promotion of products on European markets. The lack of an effective system of export insurance, financial guarantees, logistical support mechanisms and professional support for entering EU markets reduces the competitiveness of Ukrainian producers, especially small and medium-sized enterprises. In some sectors (for example, IT or the creative industry), the barriers are much lower, but in traditional industries – agriculture, food, machine building – there are both tariff and technical obstacles.

Differences in access to finance also play a significant role. Ukrainian business operates in conditions of higher lending rates, insufficient number of long-term financing instruments, poorly developed stock market and limited access to European financial programs. Although the EU is gradually opening up some programs (such as Horizon Europe, InvestEU, Digital Europe), Ukrainian companies often lack the administrative resources or experience to fully participate.

An equally important challenge is the level of customs administration and logistics. Despite some digitalization of customs procedures, the processes of goods crossing the border remain long, complex and unstable. There is duplication of functions between control bodies, insufficient level of interaction with European customs audit systems, lack of transparency. This causes delays in delivery, additional costs and unequal conditions for Ukrainian exporters compared to European manufacturers.

Separately, it is worth mentioning the regional challenges that have intensified since the start of a full-scale war. The closure of seaports, constant attacks on logistics infrastructure, a shortage of railway wagons, energy risks – all this aggravates the transportation of goods to the EU. Despite the creation of solidarity routes, the capacity for full-fledged exports is still insufficient [6].

In summary, we can say that the barriers in trade and economic relations between Ukraine and the EU are complex, multidimensional and require a systemic solution at several levels – institutional, technical, legal and political. The gradual overcoming of these challenges is not only a prerequisite for the development of foreign trade, but also an important element of preparation for Ukraine's future accession to the European Union.

After June 5, 2025, the European Union will terminate the temporary duty-free regime for Ukrainian goods, which was introduced in 2022 in response to Russia's full-scale invasion. This regime provided for the abolition of all customs duties, tariff quotas and safeguard measures on imports from Ukraine and was extended until June 5, 2025.

From June 6, 2025, the EU plans to return to the standard trading conditions provided for in the Association Agreement between Ukraine and the EU, in particular to the provisions of the Deep and Comprehensive Free Trade Area (DCFTA). This means the reinstatement of customs duties, tariff quotas and other trade restrictions on Ukrainian exports. In particular, the EU has adopted transitional measures that provide for the division of the annual duty-free quota into 12 monthly installments in order to reduce imports for the period of negotiations.

At the same time, the European Commission has adopted transitional measures that will replace the agreement with Ukraine on “customs visa-free travel”, which will expire on June 6, 2025. Previously, they stated that Ukraine would be able to export goods to the EU without duties, but there is still no information on how the temporary measures will work.

In addition, the European Union decided to restore quotas for agricultural imports from Ukraine, which were abolished at the beginning of the full-scale invasion of 2022 to support Ukrainian farmers. The updated restrictions will come into force on June 6.

These changes could have a significant impact on Ukrainian exporters, especially in the agricultural sector, where a significant part of the products are exported to EU countries. The restoration of duties and quotas could lead to a decrease in export volumes and incomes of Ukrainian producers. In response to these challenges, Ukraine should intensify efforts to adapt its legislation and standards to EU requirements, as well as to seek new sales markets for its products. In addition, it is important to continue negotiations with the EU on possible exceptions or the extension of certain preferential regimes for Ukrainian goods.

Thus, the restoration of customs duties after June 5, 2025 is an important stage in trade and economic relations between Ukraine and the EU, which requires the Ukrainian side to strategic planning and active work to maintain and expand access to the European market.

3.2 Prospects for deepening Ukraine's economic integration into the EU internal market

The European integration process of Ukraine has been one of the main foreign and domestic policy priorities of the country since the beginning of its independence. This process is evolutionary in nature and covers both political and economic, legal and institutional aspects. Its dynamics reflect both the strategic goal – full membership in the European Union – and the numerous challenges that arise on the way to implementing this course.

Among the main achievements, it is worth noting, first of all, the signing and gradual implementation of the Association Agreement between Ukraine and the EU, which entered into force in full in 2017. This document has become the key legal basis for integration, covering not only political cooperation, but also deep economic integration through the creation of a deep and comprehensive free trade area. Since the entry into force of the agreement, there has been a steady increase in trade volumes with the EU, a strengthening of the role of the European Union as Ukraine's main trade and investment partner, and intensified reforms in the areas of public administration, energy, ecology, education, justice, and the fight against corruption.

An important step was Ukraine's obtaining the status of candidate for EU membership in June 2022. This step confirmed the recognition of Ukraine's European perspective at the political level and marked a new phase in bilateral relations. From now on, integration has acquired not only an economic, but also a strategic and security dimension, especially in the context of Russian aggression. In parallel, Ukraine is actively integrating into certain EU policies and programs – such as ENTSO-E in the energy sector, the Horizon Europe and Erasmus+ programs, and is also participating in the process of sectoral convergence in the areas of digitalization, transport, customs and tax administration[5].

However, the integration process is not without serious problems. One of the main ones is the complexity and slowness of the adaptation of Ukrainian legislation to EU law. Although the necessary regulatory and legal acts have been adopted in many areas, the issues of real implementation, ensuring independent supervision and

appropriate institutional capacity remain acute. Another significant problem is the lack of coordination of European integration policy between different branches of government, the lack of a clear strategy and roadmap for convergence in specific sectors.

In addition, the process is affected by deeper internal challenges, in particular, the instability of the political system, changing priorities after the next elections, an insufficient level of legal culture, a protracted fight against corruption and the inertia of old bureaucratic practices. Some reforms are being implemented only under external pressure or formally, which makes it difficult to assess their actual impact [39].

External challenges are also significant: the war, which has been going on since 2014 and intensified in 2022, has seriously complicated internal transformation and limited resources for the implementation of reforms. In addition, the EU itself is undergoing a transformation process that is slowing down its ability to expand. Member states remain skeptical about Ukraine's ability to quickly integrate into the single market, the judiciary, environmental standards, and other areas critical to membership. At the same time, European integration for Ukraine has ceased to be an exclusively political choice – it has become an existential path of survival that combines economic modernization, strengthening security, consolidating society, and restoring citizens' trust in state institutions.

3.3 Prospects for deepening Ukraine's economic integration into the EU internal market

The prospects for deepening Ukraine's economic integration into the European Union's internal market are closely linked not only to geopolitical circumstances, but also to Ukraine's readiness to implement deep structural reforms, as well as to the EU's ability to expand its institutional and regulatory model. After receiving the status of a candidate country for membership in 2022, Ukraine's European integration has gained new momentum. It is seen not just as a long-term political course, but as an unalternative strategy for economic security, modernization, and sustainable development.

Deepening integration means Ukraine's gradual access to the four freedoms of the EU's internal market – the free movement of goods, services, capital, and labor. Today, economic ties are limited mainly to trade in goods and individual sectoral agreements. However, the prospects for expanding cooperation include integration into the EU's common digital, energy, customs, and transport policies.

One of the key areas is Ukraine's accession to the internal market through sectoral integration, which is already partially underway. In particular, Ukraine has synchronized its power system with ENTSO-E, the European Network of Transmission System Operators, which creates the basis for participation in the EU energy market. Integration into the EU Digital Single Market is also active, in particular in the field of electronic communications, cybersecurity, digital identification and reduction of roaming tariffs. A similar process is expected in the field of the customs union – provided that the EU Customs Code is fully implemented, the transition to electronic document management and accession to the NCTS system.

The most promising is the gradual entry of Ukraine into the EU internal market on the terms of the “common market”, as was the case with Norway, Iceland or the Western Balkan countries. This format involves the adaptation of a significant part of the *acquis communautaire* (EU legislation), in particular in the field of technical regulation, consumer protection, environmental protection, financial services and state aid. After passing the conformity assessment (screening), the EU can gradually open access to its sectors, including public procurement, transport, the agricultural market and financial services.

A potential advantage is also access to funding and structural assistance programs provided to countries preparing for accession. This involves the gradual opening of instruments currently available to member states, in particular cohesion funds, regional development funds, as well as participation in infrastructure development, digital transformation and climate adaptation programs (Green Deal). This will allow Ukraine not only to revitalize its economy, but also to align standards with the EU. However, successful deepening of integration has a number of conditions. Key among them is Ukraine's functional ability to implement European rules in

practice. This is not only about the formal adoption of legislative acts, but also about creating effective institutions capable of ensuring the implementation of norms in the areas of antitrust policy, judiciary, market supervision, control of public finances and transparency of procurement. Without this, the opening of European markets will remain limited [7].

Another factor is the EU's own readiness to expand the internal market. In the context of internal debates on EU reform, financial sustainability and geopolitical challenges, the integration of new countries will require compromises among member states. At the same time, the war in Ukraine has significantly changed the political climate in Europe, and more and more states recognize the need to incorporate Ukraine into the EU economic structure not as a gesture of solidarity, but as a rational investment in shared stability and development. Overall, the prospect of Ukraine's full economic integration into the EU internal market is quite realistic in the medium term. It depends on the comprehensiveness of reforms, political will, external support and Ukraine's ability to prove its compatibility with the legal, economic and social standards of the European Union.

In the context of deepening integration into the internal market of the European Union, an important milestone was the gradual inclusion of Ukraine in the elements of the EU Single Market program, which is the fundamental basis for the functioning of the European Union economic space. It covers four freedoms – the movement of goods, services, capital and people – and contributes to the harmonization of the regulatory framework, the elimination of barriers and ensuring equal conditions for business in all member states. Ukraine, being on the path to full membership in the EU, is taking consistent measures to be included in the key components of this program. In recent years, in particular after acquiring the status of a candidate country in June 2022, the Ukrainian state has begun implementing a number of legislative and institutional changes that allow it to integrate into individual segments of the EU internal market.

One of the concrete steps was joining the EU Single Market Program in 2023. This is an EU-funded instrument that enables Ukrainian authorities, business associations, consumers and entrepreneurs to participate in measures to increase

competitiveness, digital transformation of small and medium-sized businesses, simplify access to finance and protect consumer rights. Participation in the program allows Ukraine to join European market surveillance systems, product safety control, food safety standards, as well as certification procedures, thereby gradually bringing the national economy closer to functioning in the single market. In addition, Ukraine is actively involved in other EU programs aimed at convergence in the economic, social, infrastructure and environmental spheres.

In particular, we are talking about the Digital Europe program, to which Ukraine gained access in 2024. This paves the way for the modernization of digital infrastructure, the development of cloud computing, artificial intelligence, as well as cybersecurity, which are key elements of a competitive economy of the future. Ukraine is also a participant in the COSME (Competitiveness of Small and Medium-sized Enterprises) program, aimed at supporting small and medium-sized businesses, and Horizon Europe, the largest EU research program, which allows Ukrainian scientists and entrepreneurs to receive grants for innovative projects and participate in joint research.

At the same time, as part of its gradual integration into the European services market, Ukraine is carrying out deep harmonization of legislation in the fields of energy (in particular, within the framework of the Energy Community), transport (joining the Single European Aviation Area), ecology and climate (including approximation to the requirements of the European Green Deal).

All these efforts are aimed not only at simplifying trade and capital movements, but also at ensuring Ukraine's legal and institutional compatibility with the norms and principles of the EU internal market. Thus, participation in the EU Single Market program and other sectoral initiatives gradually forms the basis for Ukraine's future full entry into the European economic space and creates the prerequisites for stable, mutually beneficial cooperation on the principles of integration and solidarity.

3.4. Recommendations for optimizing trade and economic cooperation

Recommendations for optimizing trade and economic cooperation between Ukraine and the European Union should be aimed both at overcoming existing barriers and at unlocking the full potential of deeper integration within the framework of the current Association Agreement and future membership. Such recommendations can be conditionally divided into internal (depending on Ukraine's actions) and bilateral/external (requiring interaction with the EU and its institutions).

First of all, it is necessary to intensify the harmonization of Ukrainian legislation with the EU *acquis communautaire* – not only in a formal sense, but with a focus on effective implementation. Particular attention should be paid to the areas of technical regulation, phytosanitary control, customs, intellectual property and competition. This will ensure a freer movement of goods, especially agri-food products, which have a high share in exports to the EU.

In addition, it is necessary to create an institutionally stable mechanism for monitoring the implementation of obligations under the Association Agreement, in particular at the level of the Cabinet of Ministers, the Verkhovna Rada and regional authorities. A transition is needed from the fragmented implementation of individual points to the systematic implementation of the European integration course as part of the overall economic strategy.

It is also important to expand support for small and medium-sized businesses, which often face difficulties in accessing European markets due to lack of awareness, financial constraints and complex technical requirements. Special support programs for exporters, educational initiatives, adaptation to EU standards are needed, in particular through a national network of export support centers, certification and consultations [8].

Ukraine should also intensify integration into EU sectoral policies, in particular the digital economy, the “green” transition, the TEN-T transport network, energy and digital trade. This will allow Ukraine to deepen its participation in the EU internal market even before formal membership, as well as attract additional financing and technological assistance.

The EU would like to expand Ukraine's access to European technical, institutional and financial support programmes. This involves not only further integration into framework programmes (such as Horizon Europe, Digital Europe, LIFE), but also the creation of adapted structural assistance mechanisms for candidate countries, in particular in the areas of infrastructure, ecology, innovation and human capital.

One of the important tools for optimization is the simplification of procedures and barriers to trade and transit, especially in times of war and the closure of traditional logistics routes. This requires coordination with EU border services, investment in logistics corridors and the development of “solidarity routes”, as well as the harmonization of customs procedures and the digitalization of trade.

An equally important area is attracting European investment through improving the business climate in Ukraine, protecting investor rights, reducing administrative pressure, judicial reform and effectively combating corruption. Creating a favourable investment environment is a guarantee of deeper integration into European value chains.

Ultimately, optimizing trade and economic cooperation requires a systematic strategic dialogue with the EU that goes beyond the Association Agreement and involves Ukraine in shaping the new architecture of the enlarged European market. Such a dialogue should include issues of deeper integration, new joint initiatives, and future full membership.

CONCLUSIONS

1. Economic and trade cooperation between Ukraine and the EU has become one of the most important priorities of Ukraine's foreign policy, especially after the “Dignity Revolution” in 2014 and the Russian invasion. Research shows that this cooperation is based not only on common political values, but also on specific legal mechanisms and long-term economic interests. The theoretical and methodological foundations of integration, including the principles of economic convergence and legal convergence, constitute the cornerstone of Ukraine's accession to the European Economic Area.

2. Over time, the legal framework of bilateral cooperation has changed significantly from the Partnership and Cooperation Agreement, which mainly provided a basis for dialogue, to the Association Agreement, which legally established Ukraine's path to European integration. The Association Agreement, including the Deep and Comprehensive Free Trade Area (DCFTA), took cooperation to a new level by providing clear commitments and granting Ukraine access to the EU single market on asymmetric but mutually beneficial terms.

3. The Deep and Comprehensive Free Trade Area plays a vital role in restructuring Ukraine's economy and aligning it with EU standards, covering customs liberalization, technical regulations, sanitary and phytosanitary standards, customs administration, public procurement, and competition policy. Ukraine's regulatory alignment has improved product quality, opened new markets for domestic producers, and accelerated the adoption of European technical and safety standards.

4. The analysis of goods trade shows steady growth in trade volumes between Ukraine and the EU since the DCFTA came into force. The EU has become Ukraine's largest trading partner, with increasing exports of agricultural, metallurgical, and engineering products. Despite the war, the EU remains a stable market, and the share of processed products is gradually increasing.

5. In the service sector, bilateral trade has shown resilience and vitality even in times of war. In particular, the Ukrainian IT industry has become a driving force for its service exports to EU countries. Transport, consulting and financial services also show

positive trends. The study emphasizes that the temporary relaxation of EU transport regulations and support for digital infrastructure will help Ukrainian service providers integrate into the European market.

6. Investment cooperation with the EU is increasingly important for Ukraine's economic modernization. The EU remains the largest investor in Ukraine and has shown a growing interest in areas such as renewable energy, logistics, infrastructure and technology. Since 2022, the war has led to a shift in investment activities to the safer western regions, and new mechanisms such as the EU Recovery Fund and Risk Insurance Program have emerged to support long-term investment in Ukraine's recovery.

7. The war had a significant impact on Ukraine's trade and investment relations with the EU, both positively and negatively. On the one hand, the destruction of infrastructure and disruptions to logistics posed major challenges. On the other hand, the EU provided unprecedented macro-financial assistance and opened up market access. The establishment of "solidarity channels" and the suspension of tariffs helped maintain trade flows and strengthened Ukraine's economic resilience during the war.

8. Despite its growing cooperation with the EU, Ukraine still faces many obstacles to its full integration into the EU economy. These obstacles include institutional deficiencies, limited enforcement of EU compliance laws, technical barriers, infrastructure bottlenecks, and fragmented support for exporters. In addition, asymmetric market access and protectionist tendencies within the EU also pose challenges.

9. Ukraine's prospects for deep integration into the EU single market are bright, but this depends on continued reforms, political stability, and sustained mutual cooperation. Obtaining EU candidate status (2022) and launching accession negotiations (2024) mark Ukraine's strategic transformation. Sectoral cooperation and regulatory convergence form the basis for gradual integration and make the economic and trade partnership with the EU a key element of Ukraine's sustainable growth and modernization.

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