IS THE DCFTA BETWEEN EU AND UKRAINE NEGATIVELY IMPACTING RUSSIA'S ECONOMY?

Ion POHOATA[*]
Aida-Loredana BACIU[**]
Paula-Alexandra ROIBU[***]

Abstract: *This paper aims to highlight specific aspects and consequences of the dual nature of relations between Russia and Ukraine in the context of DCFTA's implementation. We are interested to encounter the point of contact and the interference areas to which Ukraine is referring to secure its balance, considering that its economy and market are traditionally oriented toward Russia and DCFTA is reorienting it toward EU and in this context, to show that the Russian economy is not, fundamentally, affected. Based on the statistical data that provides the economic situation of the two countries (import, export, FDI, labour migrants) before and after signing the treaty, we will analse the manner in which DCFTA affects the Russian economy. The findings indicate that that the implementation of the DCFTA does not have the potential to cause instability in trade relations between Ukraine and Russia, and that, precisely, the hostile actions of Russia against the DCFTA has jeopardized the country's position on economic actors arena*.

Keywords: DCFTA; Ukraine; Russia; trade; economic consequences; sanctions
JEL Classification: F51; F5

Introduction

The purpose of this article is to show that Ukraine's geopolitical area is not likely to cause major changes in the regional economic balance in which Ukraine and Russia have been and continue to be core parts.

The collapse of the Soviet Union and its split into different independent republics, led the West to create a new foreign policy. Its target was an attempt to establish links with neighbouring countries, which even if they were already independent, could not escape from the influence inherited from the Russian Federation. Among these republics, Ukraine has always been an attraction, because it holds resources and it represents the border between Europe and Asia (Brzezinski, 1997). After the collapse of the Soviet Regime both Russia and EU focused on Ukraine through the enlargement policy.

[*] Professor PhD, Alexandru Ioan Cuza University, Iasi, e-mail: ionpohoata@yahoo.com
[**] Ph.D, Alexandru Ioan Cuza University, Iasi, e-mail: baciu.aida@yahoo.com
[***] Ph.D, Alexandru Ioan Cuza University, Iasi, e-mail: roibu.paula@yahoo.com

Western scientists believe that the reorientation of Ukraine to EU means cooperation in terms of economy, tourism, transport, etc, while for Russia it is a strategic partner in its domination.

As a result of this situation, Ukraine decided in 2014, after years of negotiations, to sign a free trade partnership with the EU. These two had signed a treaty in 1994, but relations between them were not tight enough because Ukraine was under Russian domination. In 2004 in the context of the Orange Revolution, which led to the democratisation of Ukraine, the EU has urged Ukraine to have a relationship of close cooperation. So, in May 2009, the EU launched Eastern Partnership Cooperation with the six countries of the EEP, which created tensions in its relations with Russia. EU called on its EEP partners to discuss the terms of the partnership AA - Associations Agreement, Deep and Comprehensive Free Trade Area (DCFTA), and Visa Facilitation and Readmission Agreements (Anders, 2013). As a result, Ukraine was the one who wanted to progress more than other countries, so the object of the meeting was DCFTA negotiations. The final negotiations of this treaty occurred in 2012 and 2013 with the occasion of the Summit in Vilnius, but the President of Ukraine, Victor Yanukovych, cancelled the signing. Cancelling the signing of this treaty provoked the Maiden Movement to remove the President, which resulted in the starting of the civil war and the annexation of Crimea to Russia. This created tensions in the relations between EU and Russia, which latter were penalized in terms of economic collaboration. Signing the treaty with Ukraine has been delayed until September 2014 under these circumstances and its implementation started from January 2016. Given the brutality wherewith Russia punished Ukraine for the desire to get out from under its wing (severe punishments and removal of Crimea), the latter decided that the only way towards evolution and security is EU, through DCFTA Treaty.

Ukraine crisis has opened a new wave of old rivalries and clashes between opponents of the Cold War. Quick changes in West Ukraine in late February 2014 made things lose their balance, Russia feeling cornered and the relationship between the two ended with a wave of sanctions. Beyond Ukraine, the struggle for influence between the two is a real one that will have major consequences.

This paper aims to highlight the extent to which the implementation of the DCFTA negatively influences the relations between Ukraine and Russia. To achieve our goal, we used qualitative analysis, based on trade relations between the two countries before and after the implementation of the DCFTA Treaty. Based on the data provided by the literature, we carried out an analysis of the origin of the imports, the exports, their structures and the direct investments of the two countries. Has Russian economy suffered due to the implementation of this treaty? The paper aims to answer this question by the analysis undertaken. The Ukrainian market was, and still is, traditionally oriented towards the Russian market, so signing the agreement with the EU caused tensions. The main objective of this paper is to find out whether Russia's economy is really affected by the DCFTA between the EU and Ukraine or his own actions create economic regression. We believe that what affects mostly the Russian economy are its own deeds. Russia's interests are actually who makes the rules. Will this stubbornness lead to Russia's geopolitical and geostrategic economic stagnation or regress? Why Ukraine has chosen EU?

1. Literature review

DCFTA is a relatively new trade policy. The notion of free trade first appeared in the 1990s, when the Barcelona Process launched a series of trade agreements between the EU and the Southern Mediterranean countries (De Wulf and Maliszewska, 2009). For the European Union, the concept of integration with external partners and the design of DCFTA has been drawn from the experience of building the Single European Market and the European Economic Area in the 1980s and 1990s and the subsequent EU enlargements.

The implementation of the DCFTA is an important step in the EU's attempt to integrate underdeveloped markets, targeting the former centralized states from Eastern Europe (Hoekman, et alin. 1999). Ukraine, one of the countries concerned, was invited in 2007 to take part in negotiations with the purpose of signing the Association Agreement with the EU. Due to the long commercial relations between Ukraine and Russia, the first had also another route to free trade, respectively EaP. However, signing a new trade agreement with Russia was not at the time, an option for Ukraine, given that they held through CIS free trade privileges (Evans, 2004).

The concept of free trade integration can be interpreted in a broader sense, beyond trade and investment issues, free movement of people and labor, in practice DCFTA includes the following components (Evans, 2004):

- investment rules;
- product standard or process standard;
- regulations of anti-duping procedures;
- beyond WTO rules the limitation of using subsidies limitation;
- regulation of service provision;
- institution/s to monitor the implementation of agreement;
- dispute settlement mechanism.

Emerson (2006) and Ecorys show that DCFTA which additionally incorporates a reduction on different non-tariff barriers and the liberalization of trade in services, would have a positive impact on Ukraine's welfare compared to the simple one where the impact is smaller or slightly negative. Maliszewska (2009) found some support by stimulating the different FTAs between EU and CIS. The results indicate that Ukraine benefits the most among the CIS country and the gains form the deeper integration (5.83%) are higher than those from the simple tariff reduction (1.76%).

DCFTA is more than just a trade agreement and it is based on the following aspects (European Commission): openness to other markets by removing progressive tariffs and restrictions on services and public procurement (except automotive sector for which is established a period of transition and agricultural goods where it requires various concessions because of the sensitivity); fair competition between companies from EU and Ukraine by ensuring respect for intellectual property rights, new standards in terms of environmental protection and safety at work, prohibition of anticompetitive practices or any other action whatsoever which distorts competition and trade, creating a process of harmonization for EU investors, free movement of capital including standard protective measures, the adoption by Ukraine of the EU legislation on public procurements, except military ones.

The benefits to Ukraine from closer trade integration with EU are potentially huge (new technologies, higher quality standards, know-how and raising the energy efficiency of the recipient countries' economies which remain a challenge for Ukraine) (Astrov, 2015). Ukraine is offering EU s cheap but generally well educated labor force and a higher degree of political stability. This agreement does not rule out that Ukraine maintains close trade links with Russia. Ukraine could potentially attract European investments into production of goods destined for Russian market. The Russian market is important to Ukraine because Russia is the principal export market for Ukraine's more sophisticated products (machinery, equipment) and Russia is Ukraine's single most important destination (Wolczuk, *et al*., 2015).

The re-orientation away from Russia will be politically painful and economically costly for Ukraine. What is a technical matter is now a political one. The current level of quotas for Ukraine, especially for agricultural products, needs further revising on unilateral basis. In case if EU restricts market access for key agricultural products from Ukraine, the Ukrainian producers have no choice but to rely on access to the Russian/Eurasian market, despite arbitrary restrictions imposed by Russia. They will be forced in this conditions to adapt to regulations of the Russian/Eurasian market but will remain highly sensitive to the political aspects of relations with Russia. The economic and social costs for the electorate in eastern and southern Ukraine will have repercussions for Ukrainian domestic politics (Wolczuk, 2014).

Russia is well positioned determined to undermine Ukraine's European integration in three ways (Wolckzuk, 2014). First, Russia can draw upon a much broader spectrum of instruments than EU and, unlike EU, does not hesitate to deploy punitive measures, even by transgressing domestic and international law. Second, Russia exploits the weaknesses of EU's strategy by stressing the short-term costs and benefits from integration with the Eurasian regime, as opposed to the long-term benefits derived from integration with EU. Russian officials refer to the DCFTA as 'suicidal' for the Ukrainian economy and will miss no opportunity to highlight any losses and disruptive effects. Third, Russia exploits specific needs and vulnerabilities of the countries located in the 'near abroad'. Russia carefully selects its instruments from the wide array at its disposal to target specific countries, domestic actors, regions, sectors etc. As a result, the price imposed by Moscow for 'moving away' from Russia further increases the already high costs of closer economic integration in EU for Ukraine.

There is no doubt that the prospect of integration into the EU single market offers the best chance for the neighbouring countries, including Ukraine, to modernize and foster economic growth. But the aquis is not easily transposed to the eastern partners, given their political, economic and administrative context. Using the AA-DCFTA (Shirmammadov, 2015) as a template for reforms in Ukraine raises some formidable challenges, at the very time when successes and failures have high-profile political geopolitical stakes, owing to Russia's efforts to undermine European integration as a viable option for all the eastern partner countries in general and Ukraine in particular.

2. Why is Russia against?

Russia has made a number of criticisms about the signing of DCFTA agreement on the grounds that it harms its economy. In response to the aversions launched by Russia, EU suspended the signing of DCFTA by the end of 2015 (so that Russia will not attack Ukraine). The negotiations, however, confirmed that the harmful effects of this treaty, which Russia has claimed, are merely an excuse (Drayer, *et al*. 2014). Many conflicts could be solved by negotiating with the WTO, Russia has shown very little interest in this, and concerning the trade issues, things have escalated to the highest political level, it is full of geopolitical and military issues. We can say that there are solutions to solve this conflict, but Russia seems to be more concerned with who sets the rules.

Following the conclusion of the agreement, Russia did not delay any action against Ukraine. In July 2013 Russia banned the import of Ukrainian Roshen confectionery with the pretext that they don't comply with food safety standards. Ukraine has challenged them in WTO meeting on technical barriers for trade (TBT) and compliance with the rules (SPS). In addition to these, new controls were imposed to products imported from Ukraine, because they fall into the high risk category, which led to suspension for a few weeks. The sanctions against Ukraine did not stop there, in October 2013 Russia banned the import of cars (Ash *et al.*, 2014), refusing to recognize the certificates of quality for several producers, so that in February 2014 they ban the import of various products of poultry from Ukraine. Rospotrebnazadors withdrawed the certification of MHP Company, one of the largest suppliers of poultry, which resulted in redirecting its products to other countries, including EU.

The sequence of sanctions included banning imports of cheese, dairy, alcohol and potatoes on the grounds of food safety issues but stopping the gas supply was one of the most important economic sanctions.

Ukraine was excluded from CIS, the free trade agreement signed with Russia, which reduced exports by $ 3 billion, that is 17% of total exports to Russia and corresponds to 1.7% of GDP (Ryzhenkov, *et al.*, 2013). In response to the Russia's attacks, Ukraine halted military cooperation and the delivery of military supplies.

The President of Ukraine signed in September 2015 a law on sanctions that could be used to stop economic relations with Russia. The list contains 25 possible measures, does not limit the freezing of assets, restrictions and transit trade, economic and financial liabilities suspension, revocation of licenses, permits and visa bans. In June 2014, the national gas company Naftogaz accused Gazprom from Russia in terms of price and debt issues by arbitration in Stockholm.

Russia was later sanctioned by EU due to its actions against Ukraine. As a result, EU has restricted the entire access of Russian capital market investments, thus forbidding five major Russian banks loans for proper and interbank cooperation and financing services. Besides European countries do not support oil exploration in the Arctic, nine major companies from Russia and 24 persons have been declared persona non grata (Ash et al., 2014).

The reorientation of Ukraine to the European Union represents more than an economic problem due to the position that it holds in this state domination recovery plan that Russia has lost once the collapse of the USSR. During two decades, geopolitical visions of the former states under Russian domination have turned their attention to the new solid block that seemed to guarantee a more promising trend. In this direction, Ukraine and Moldova seem to be the only European states still remaining under a heavy dependence on Russia.

3. Methodology

The methodology used to achieve the goal is based on a qualitative analysis. Using statistics we try to emphasize the share of trade relations between Russia and Ukraine. The methodology includes desk research from primary sources and secondary sources and statistical data provided by world organizations. The main aim of the article is to find out if DCFTA is negatively or positively affecting Russia and to explain a broad range of mutual political, economic and security interactions between Ukraine - Russia and Ukraine - EU and to find possible answers to the decision made by Ukraine’s government.

To reach the goal in the framework of chosen methodology, focus areas were defined accordingly to the two blocks of potential influential explanations that were identified as most popular through the collected information. First area concentrates on the Agreement by itself and on the official announcement of the Ukraine’s government, that the decision to sign an agreement would not be beneficial for the national security interests of the country. Second focus is on the influence and the economic pressure of Russia regarding Ukraine’s decision. For this purpose, we analysed the economic relationship between Russia and Ukraine. The process tracing of the research will be provided through bilateral treaties, documents, strategies between Ukraine - EU and Ukraine - Russia, statistical data of market patterns, public statements by officials, involved variables and similar cases in terms of economic data.

To understand the long history of Ukraine towards EU integration and AA is important to describe: EU framework for cooperation – European Neighborhood Policy and Eastern Partnership (EaP), the beginning of relationships in 1991 and Ukraine’s foreign policy’s priorities. Before the signature of AA, Partnership and Cooperation Agreement determines areas of cooperation between Ukraine and EU. Final text of AA and the requirements of the EU for Ukraine to sign the agreement will be applied accordingly to the Ukraine’s official position – how it is influencing national security interests of Ukraine.

To continue the broad description of complicated relationships between Ukraine and Russia since 1991 is important to understand the pre-history of both actors before independency of Ukraine and close cultural ties. The suspension to sign an agreement will be analysed through political, economic and security factors. Comparison of the main tendencies in the market (import, export, FDI) with Ukraine will provide statistical arguments about Russia’s real impact on Ukraine’s economy.

Through the research, we tried to highlight the warning signals that were not appropriately evaluated by EU regarding “bluffing” Ukraine about its’ efforts to sign the agreement and causality mechanisms (mutually interacting factors) of the decision made by Ukraine. It also answers the “what if” question – more precisely, what if EU would act differently during negotiations or what if Ukraine would. Following, we will analyse the results of the DCFTA signing, if they negatively or positively influence Russia's economy.

4. Trade relations between Ukraine, Russia and EU

The rivalry between the European Union and Russia, those two areas of interest to the former states under Soviet domination, began long before the annexation of Crimea to Russia and Russian political intervention in Ukraine. During two decades, the geopolitical visions of those states have turned their attention to the European Union, as able to guarantee a more promising economic development. Thus, the sharing of common neighbours between European Union and Russia turned into a competition between integration projects, namely the Eastern Partnership and Eurasian Customs Union (Delcour *et al*., 2014). In this respect, Ukraine and Moldova seem to be the only states that still experience a heavy bondage with Russia.

The link between Ukraine and Russia goes over the arguments of neighbourhood area and trade partnership relations. Citing the traditional side, these two countries are strongly linked to the ideology of a centralized economy, creating an umbilical bond that spread in political, economic, trade framework of Ukraine.

The nature of DCFTA agreement aims the economic integration between the European Union and Ukraine, not a political one (Duleba, 2014). In this regard, the trade between Russia and Ukraine do not represents the subject of the DCFTA agreement. Ukraine is, in this case, free to establish her priorities, whether it’s about agreements and geopolitical groups, or about other directives and standards regarding trade with other countries. In addition, Ukrainian entrepreneurs are free to choose their partner markets and to produce at those standards, namely the Russian market, either the Chinese or the European markets (Emerson, 2014) and thus Russian-Ukrainian trade will continue to be held at the standards established between the two sides, respectively WTO standards, the same applied within the EU.

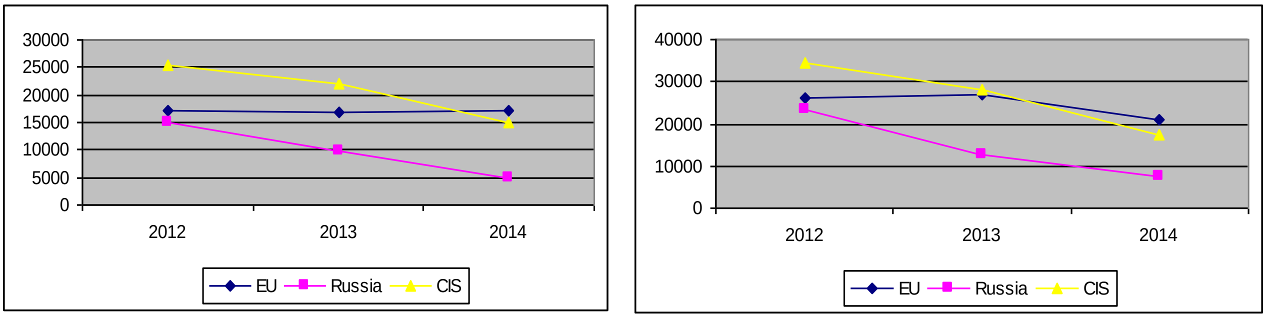
Michael Emerson (2014) brings forward the issue of "flooding the Russian market with European products" and approaches the subject by the rules of origin of goods. In this respect, Russia’s trade dynamics is being protected. The Russian imports whose origin is European Union are charged according to WTO rules, even if they come from Ukraine. The exceptions of this rule are products for that Ukraine brings an added value contribution, thus benefiting from the free trade privileges of CIS agreement. Excluding Ukraine from CIS removed this issue.

The implementation of DCFTA provides opportunities for both subjects of the agreement, namely the European Union and Ukraine. Trade liberalization between these two offers a privileged position for Ukraine amid the opening of those 28 markets of European Union. Rilka Dragneva and Kataryna Wolczuk (2012) outline the impact that the implementation of the DCFTA will have on Russian companies. Are highlighted in this case the new business opportunities for Russian companies from Ukrainian territory, and for those from Russian territory.

The trend observed in the period 2012-2014 is the reduction of trade volume between Ukraine and Russia, this being attributed to Russia's actions to reduce dependence on trade with Ukraine, especially imports (Emerson, 2014).

Figure 1 - Ukraine's Foreign Trade in Goods

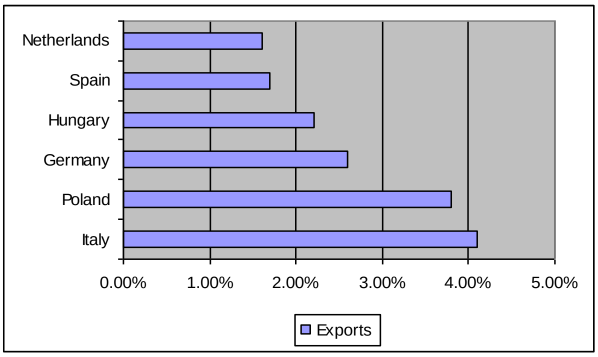
Exports (mln.USD) Imports (mln.USD)

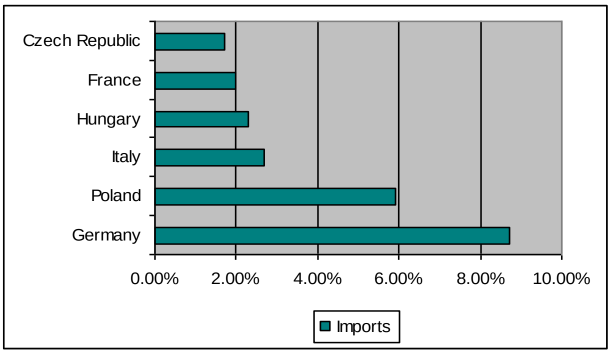


Source: State Statistics Service of Ukraine, own processing

Thus, the volume of exports to Russia declined significantly since 2012, reaching one-third in 2014 compared to 2012. Since the DCFTA was signed in June 2014, is denied its ability to influence the dynamics of Russian-Ukrainian trade. This downward trend was also observed with other trading partners, such as CIS, for which exports were reduced by approximately 45% over the same period. On the other hand, trade relations between Ukraine and the European Union have not known significant fluctuations, fact that can be explained by the gradual accommodation to standards established by DCFTA agreement. The main European Union destination countries of Ukrainian exports are Italy, Poland and Germany, mainly exporting: metal products, chemicals and vegetable products, minerals, equipment, plant and machines.

Figure 2 - Main trade markets of Ukraine in EU (% from total)



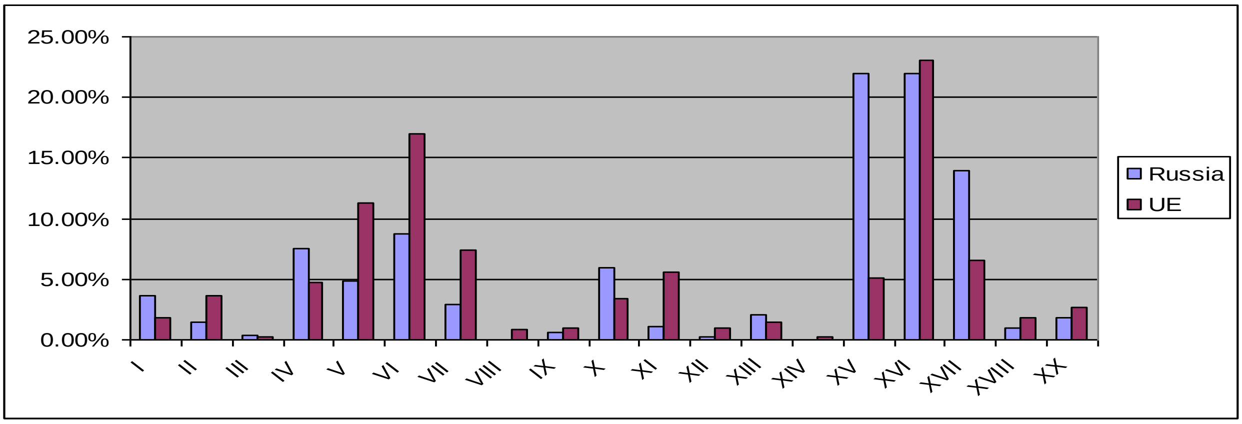


Source: State Statistics Service of Ukraine, own processing

If, on the one hand, the EU market is larger than the Russian market, also more advanced functionally and organizationally, and, on the other hand, Russia is known as the long-lasting ideologically political and trading partner, for Ukraine these two markets are equally important (Havlik, 2014, pp. 28-29). However, in terms of trade structure, the UE and Russian markets are so different thus they cannot influence each other.

Ukraine's most important export sectors to Russia are machinery, representing gas turbines, pumps, transformers and electronic equipment, and base metals and articles of base metal, each holding a share of 22% in 2013, followed by vehicles, aircraft, vessels and associated transport equipment by 14% and we chemicals products by 8.7%. Regarding the export structure between Ukraine and the European Union, this consists in mineral products (11%), chemicals (17.5), machinery (23%) and plastics and articles thereof (7.5%).

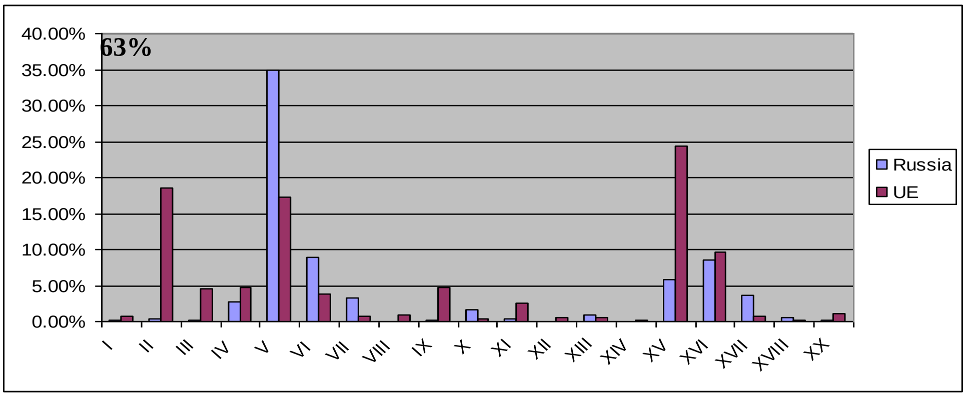
Figure 3 - The structure of exports between Ukraine and Russia / UE (2013, % from total)



Source: Eurostat and Observatory of Economic Complexity, own processing

The structure of Russian imports, it is dominated by a large proportion of mineral products (63%), followed by chemical products (8.9%), machinery (8.5%), base metals and articles of base metal (5.9%). From the European Union, Ukraine imports, vegetable products (19%), mineral products (17.5%), base metals (24.5%), machinery and electronic equipment (9.5%).

Figure 4 - The structure of imports between Ukraine and Russia / UE (2013, % from total)

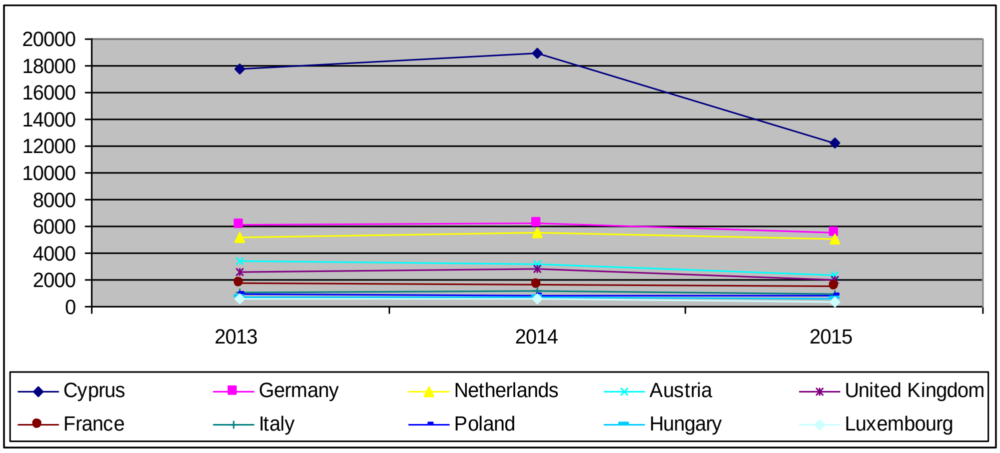


Source: Eurostat and Observatory of Economic Complexity, own processing
Legend: I Live animals, animal products; II Vegetable products; III Animal or vegetable fats, oils, waxes, prepared edible fats; IV Prepared foodstuffs, beverages, tobacco and substitutes; V Mineral products; VI Products of the chemical or allied industries; VII Plastics and articles thereof, rubber and articles thereof; VIII Raw hides and skins, leather, fur skins and articles, etc.; IX Wood and articles of wood, wood charcoal, cork, etc.; X Pulp wood, paper or paperboard (incl. recovered) and articles; XI Textiles and textile articles; XII Footwear, headgear, umbrellas, walking sticks, etc.; XIII Articles of stone, plaster, cement, ceramic products, glassware; XIV Natural or cultured pearls, precious stones and metals, etc.; XV Base metals and articles of base metal; XVI Machinery, mech. Appliances, electric- equipment; XVII Vehicles, aircraft, vessels and associated transport equipment; XVIII Optical, measuring, medical instruments, clocks, musical instruments, etc.; XX Miscellaneous manufactured articles

Thus, we can observe that the trade structure of exports between Ukraine and Russia is more advanced than the one with European Union. In addition, the competitiveness of both of these markets in Ukraine is very low, each having its specifications. The strength of Russia is precisely the position as the main exporter of minerals or oil and gas, which account a significant share in the country's GDP, but we also have to mention the exports of high technology equipment that Ukraine provided for many other countries. On the other hand, the European Union, by DCFTA, can share with Ukraine its main trade values, namely the high degree of technology and modernization. Amid trade links between Ukraine and Russia, especially on export line, these values can also be shared with Russia. In addition, taking into account the competitive advantages that Russia owns on the Ukrainian market, the dynamic structure of trade between these two will not take influences from the EU market.

Implementation of the agreement will benefit the modernization and reform trade environment, which will also create a favourable environment for foreign direct investment (Havlik, 2013). The orientation of the investors to eastern European markets is visible, and it is explained by high productive capacity, high educational level and low level of wages compared with those in the west. The most important volume of foreign investments in Ukraine have their source in the European Union, namely Cyprus (most imporant investor), Germany, Netherlands, Austria and United Kingdom. However, in 2015 their volume was significantly decreased compared to 2014 and 2013, especially the volume of investments from Cyprus, but even so, their share remained above 50% of total volume. FDI volume decrease corresponds to a combination of factors such as political turmoil, the Russian-Ukrainian conflict, followed by the annexation of Crimea by Russia, and the degradation of country risk (S&P: CCC+ (Stable) to CCC-(Negative), Moody s: Caaa1 to Caaa2 (Negative)).

Figure 5 - Foreign direct investment (equity capital) from EU countries to Ukraine



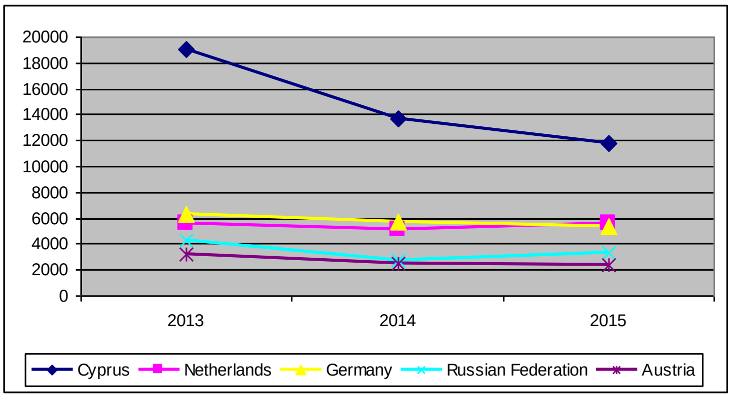
Source: State Statistics Service of Ukraine, own processing

The subject of direct investment in Ukraine founds Russia in 4th place among the most important investors, on average two-thirds less than the principal investor, Cyprus. The signing of the DCFTA set in motion the expected effects, such as a constant maintenance, but with a potential upward trend in investment volumes. For Russia, the volume of investments in Ukraine increased in 2015, which is explained by the improved perceptions of Russian investors on the potential benefits of developing trade relations with the EU.

Figure 6 - Direct foreign investment (equity capital) from countries of the world to Ukraine economy

Volume of direct investment (% of the total)

	2013	**2014**	**2015**
Cyprus	32,7	29,9	27,1
Netherlands	9,6	11,1	12,9
Germany	10,8	12,5	12,5
Russian Federation	**7,4**	**5,9**	**7,8**
Austria	5,6	5,5	5,5
United Kingdom	4,7	4,7	4,3



Source: State Statistics Service of Ukraine, own processing

Ukraine could offer to Russia's market important European investment opportunities due to the differences in labour costs that are positioned to half of that in Russia (Astrov, 2013). The subject of migration brings to the fore an issue as important, namely the ability of the EU and Russian markets to integrate immigrants into the labour market. Tomáš Ducháč, Wadim Strielkowski and Anna Matušková (2015) talk about migration in an geographically point of view, since the flow of population in eastern Ukraine has sought to integrate into the EU labour market and, on the other hand, the western population has chosen the integration on Russian labour market.

Figure 7 - Main destination countries of the Ukrainian labour migrants (% from total)

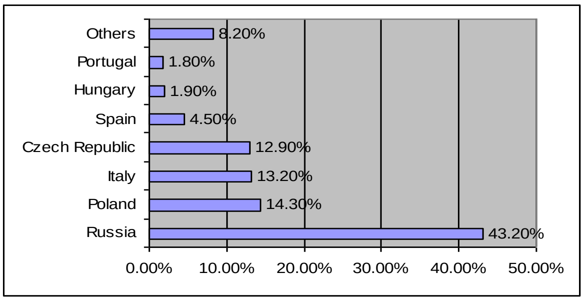
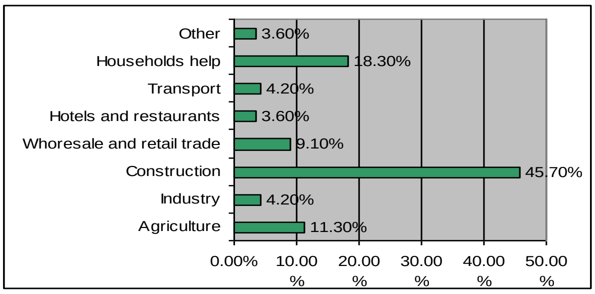


Figure 8 - Main employment areas of Ukrainian labour migrants (% from total)



Source: International Labour Organization, own processing

Almost half of the Ukrainian migrant population is attributed to Russia, fact explained by the traditional ties, ethnic, religious, geographic, but also because of their economic history and ideological link. On the other hand, the EU labour market is a target for Ukrainian population, mainly due to high salary levels, and the main countries concerned are Poland, Italy and Czech Republic.

Also, males predominate the volume of migration, and the most popular sectors are construction(45,7%), households help(18,3%), agriculture(11,3%).

In the context DCFTA makes no reference to this important piece of the manufacturing sector of Ukraine. However, in the short term, it is expected an increase by 0.8 million migrants to the EU (Ducháč, *et al*., 2015). However, due to the volume distribution within the 28 EU countries this has no effect on long-term migration or on the destination states of the migration flows.

Conclusions

Carrying out the analysis on the dual relationships that Ukraine lead with Russia and EU, brings forward the importance that these two attributes to Ukrainian market, but also that the European and Russian partners have the same degree of interest for Ukraine. By assuming the DCFTA agreement, Ukraine aims to restructure the commercial sector and explore new markets, different from the Russian characteristics.

The analysis shows that the choice made comes in the wake of the benefits that Ukraine could have, namely the openness to a more developed market with high level of competitiveness and quality, the increase of the FDI volume and the import of know- how and advanced technologies. These benefits can be transferred to Russia through trade and investments that holds with Ukraine. On the other hand, the refreshment of the relations with Russia would not bring additional benefits to those that Ukraine already enjoy due to CIS agreement. In addition, although commercial ties between Ukraine and Russia declined since 2012, Russia remains Ukraine's long race partner, even after the implementation of the DCFTA. In this account, Russia has competitive advantages: the economic history that binds her with Ukraine, the position of largest exporter of natural gas for the EU and thus Ukraine and the main importer of products with a high level of technology from Ukraine. The commercial structure analysis also indicates that the trade flows to these two areas of interest significantly differs, both imports and exports.

The traditional nature of the Russian-Ukrainian bond also reaches the subject of human capital, elemental for economic development of the country. Russia continues to be the main destination for Ukrainian workers, especially in areas with high levels of technology, but also construction and agriculture.

Due to political implications and conflict that led to the invasion of Ukrainian territory and the annexation of Crimea, simultaneous events with the negotiations of the DCFTA implementation, Russia was penalized with a series of sanctions by EU and Ukraine that have destabilized the Russian economy by reducing the exchange rate and oil prices. Our analysis argue, therefore, that the implementation of the DCFTA does not have the potential to cause instability in trade relations between Ukraine and Russia, and that, precisely, the hostile actions of Russia against the DCFTA has jeopardized her position on economic actors arena

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