

## **DEVELOPMENT OF FOREIGN TRADE RELATIONS BETWEEN UKRAINE AND TURKMENISTAN**

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The relevance of the article is due to Turkmenistan's important place among Ukrainian foreign trade partners and Ukraine's desire to develop comprehensive relations with this Central Asian country, that have recently been driven by negative trends. It is a recent problem for Ukraine as a country affected by geopolitical risks. The purpose of the article is to highlight the problems of foreign trade relations between Ukraine and Turkmenistan and to identify promising directions to overcome them. The research methodology is presented by methods of theoretical generalization, analysis and synthesis, systematic and integrated approach. The national interests of Ukraine and Turkmenistan in bilateral trade cooperation are revealed in the research. Natural gas is of paramount importance in foreign trade relations between the countries. Perspective directions of foreign trade relations are identified, that are connected with the increase of mutual trade volumes and diversification of cooperation directions in energy and non-energy spheres.

*Keywords: foreign trade relations, foreign trade turnover, export, import, goods, services.*

*JEL Codes: F1.*

### **1. Introduction**

At the present stage of the development, Ukraine has a global presence in the world economic market. It supports foreign trade relations with more than 200 countries in the world. Turkmenistan is its important trading partner in Central Asia. An extremely essential role of Turkmenistan is due to its geopolitical position – the crossroads of transport routes between Europe and Asia, and a considerable potential of raw materials.

Nowadays 152 deposits of natural gas, oil and gas condensate have been discovered in the country. Ten of them have been put into operation. Over the past 15 years 780 billion cubic meters of “blue fuel” and 104 million tons of oil have been extracted in Turkmenistan. A liquefied natural gas production has been also introduced. It has one of the leading positions in the structure of Turkmen exports (Jumaev, 2013).

Ukrainian business entities are involved in the construction of large-scale infrastructure objects of the national importance on the territory of Turkmenistan, construction of complex engineering communications, oil and gas facilities, industrial and transport industries. They export products of various purposes, provide services to Turkmenistan and others (Torhovelno-ekonomichne..., 2018). However, nowadays the level of cooperation between Ukraine and Turkmenistan, in particular in trade and economics, has significantly decreased. That is why identifying the problems and prospects of the development of foreign trade relations between the countries is essential for making effective management decisions and sound changes in the economic policy of the states.

*The scientific problem of this article* is the issue of the foreign trade relations' development between Ukraine and Turkmenistan. The particular attention is paid to identifying promising areas in the context of globalization and integration of the Ukrainian economy.

*The purpose of the article* is studying the trends and state of the development of foreign trade relations between Ukraine and Turkmenistan, identifying problems and promising directions for their deepening.

*The object* is a process of the development of foreign trade relations between Ukraine and Turkmenistan.

*The subject* is the structure, dynamics and prospects of the development of foreign trade relations between Ukraine and Turkmenistan in the conditions of globalization.

*The research methods* are based on a foreign and Ukrainian scientific literature and statistical data analysis over the past ten years to show the cooperation between Ukraine and Turkmenistan.

*The practical implication* is the main provisions and conclusions of the article that can be used for preparing analytical materials and practical recommendations for government agencies as well as businessmen – the participants of foreign trade relations.

## **2. Literature analysis**

The globalization at the beginning of the new millennium has led to a dramatic increase in the interdependence of the countries' economies. Foreign consumer goods and services, energy and raw materials, production equipment and modern technologies, scientific inventions, works of art and mass culture have become an integral part and key to the development of the society. The influence and importance of the foreign trade has increased. Accordingly, the range of economic entities directly involved in foreign trade relations has significantly expanded.

The problems of the development of foreign trade relations of Ukraine in conditions of deepening processes of internationalization of the world economy and cooperation between Ukraine and Turkmenistan are devoted to the works of many Ukrainian scholars. Thus, the neutrality of Turkmenistan as the phenomenon in the international relations with Ukraine has been considered in the works of Bakhtiyev (Bakhtiev, 2009).

The study of Lyashenko is devoted to the analysis of the political systems' transformation of Central Asian countries in the post-Soviet period. It describes both the common inter-regional and country-specific factors. It shows the structure of government bodies and civil society institutions with traditional forms of self-government operation. Given the fact that systemic transformations in the Central Asian region are fundamentally different from similar processes in Eastern European countries, the author compares internal and external factors of transformation, options for changing political elites, the possibility of transition to a new political regime, and the degree of likelihood of revolutions and armed conflicts (Liashenko, 2011).

The study of Melenchuk is devoted to the issue whether Ukraine will be able to diversify sources of gas supply at the expense of Turkmenistan (Melenchuk, 2012). Scientific works of Torayev and Perminov are devoted to the analysis of problems concerning the relations between Ukraine and Turkmenistan in terms of political and economic experience (Toraev, Perminov, 2013).

The works of Galona are devoted to the political and economic aspects of Ukrainian-Turkmen cooperation (Halona, 2018).

The most famous foreign specialist of this research area is Dzhumayev. His works are dedicated to the study of peculiarities of the international trade relations between Ukraine and Turkmenistan (Jumaev, 2013).

The work of the Main Archives and Archives of the President of Turkmenistan "The Foreign Policy of the President of Turkmenistan Gurbanguly Berdimuhamedov. Chronicle of Events" deserves a special attention. The strategic directions of long-term foreign trade relations between Ukraine and Turkmenistan are outlined there (Foreign ..., 2017).

However, despite numerous studies of this issue by scholars and practitioners, there is a need to identify clear directions of improving foreign trade relations between Ukraine and Turkmenistan.

### **3. Methodology**

The methodological basis of the article is the scientific provisions of domestic and foreign scholars, presented in the publications devoted to the research and analysis of modern bilateral foreign trade relations between Ukraine and Turkmenistan.

The methodical basis of the study is a systematic approach that has provided a comprehensive study of foreign trade relations between the countries. Traditional methods and techniques of economic analysis (tabular, comparison, synthesis) have been used in the process of the research, processing and analysis of the information. Analysis and synthesis are methods that are used to study the dynamics of imports and exports. The absolute and relative values of the foreign trade turnover are investigated using the method of comparison. Tabular method is used to facilitate the perception of the material of the article.

The information base of the article include scientific publications of Ukrainian and foreign scholars, materials of international conferences on problems of foreign trade relations between Ukraine and Turkmenistan, agreements and normative documents between the countries; official data of the State Statistics Service of Ukraine, the International Trade Center and statistical offices of Turkmenistan; materials and analytical reports of international and Ukrainian research organizations; publications of periodicals, specialized Ukrainian and world publications, official resources of the global Internet information network.

### **4. Results and discussion**

In general, there is a sufficiently developed legal framework and the friendly nature of bilateral relations in the context of Ukrainian-Turkmen foreign trade cooperation and its results. International trade relations between Ukraine and Turkmenistan are based on the following main treaties and agreements as: Free Trade Agreement between Ukraine and Turkmenistan (1994); Agreement on Promotion and Mutual Protection of Investments (1998); Agreement on Cooperation and Mutual Assistance in Tax Compliance (2001) (Turkmenistan-Ukraine ..., 2017). An agreement on a long-term trade and economic cooperation was signed between Ukraine and Turkmenistan in 2011; Cooperation programs between the Ministry of Foreign Affairs of Ukraine and the Ministry of Foreign Affairs of Turkmenistan for 2014-2015 have been adopted in 2014.

In 2018 new opportunities and the role of Turkmenistan in the development of international transit and transport cooperation with Ukraine have been identified in the context of "Turkmenistan is the heart of the Great Silk Road". Nowadays trade chambers of two countries actively work on the creation of trading houses in Ukraine and Turkmenistan that will further deepen the partnership between the countries. The activity of trading houses is aimed at increasing bilateral trade and establishing mutually beneficial investment cooperation.

Thus, Ukraine and Turkmenistan are objectively interested in developing bilateral foreign trade relations. The main priority of Ukraine is the policy of diversification of energy raw materials' sources in the development of cooperation with Turkmenistan. The opportunity to engage in barter trade has also played a role in enhancing ties with the region (Liashenko, 2011). However, the potential of these opportunities remains unfulfilled for various reasons.

For example, in 1998 a contract was signed between the Ukrainian company „Naftogaz of Ukraine“ and the Turkmen corporation „Turkmennaftogaz“ to supply natural gas to Ukraine for the price USD 720 million. Ukraine has purchased significant volumes of Turkmen gas before 2003 and it was the first trading partner for this Central Asian country.



In order to identify tendencies, problems and prospects of foreign trade relations between countries, we complete the study by analyzing export-import operations during 2009-2018.

Thus, in 2018 the foreign trade turnover of Ukraine with Turkmenistan amounted to 298.17 mln USD and decreased 3.8 times compared to 2009. The decrease in foreign trade turnover was due to the reduction of exports by 263.61 mln USD (67%) and imports of goods and services by 557.77 mln USD (by 76.8%). The negative balance was 38.53 mln USD. (Table 2) (Ofitsiinyi..., 2018).

**Table 2. Dynamics of Foreign Trade Turnover of Goods and Services of Ukraine with Turkmenistan, mln USD (Ofitsiinyi..., 2018)**

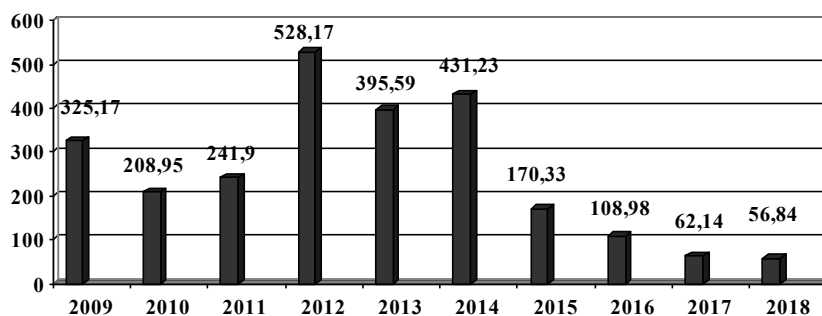
| Data           | 2009    | 2010   | 2011    | 2012   | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------|---------|--------|---------|--------|--------|--------|--------|--------|--------|
| Total turnover | 1119,55 | 359,13 | 1096,55 | 832,22 | 636,66 | 422,49 | 445,65 | 540,29 | 298,17 |
| Exports        | 393,43  | 320,47 | 253,32  | 681,36 | 577,58 | 343,27 | 371,71 | 410,48 | 129,82 |
| Imports        | 726,12  | 38,66  | 743,23  | 150,86 | 59,08  | 79,22  | 73,91  | 129,81 | 168,35 |
| Balance        | -332,69 | 308,94 | 389,91  | 530,50 | 518,50 | 264,05 | 297,83 | 280,67 | -38,53 |

In our opinion, it happened due to the policy of the Russian Federation and the created obstacles at the moment of the effective implementation of previously issued mechanisms of trade and economic cooperation between Ukraine and Turkmenistan. Thus, in 2018 exports of goods from Ukraine to Turkmenistan has decreased by 82.5% compared to 2009 and amounted to 56.84 mln USD. The highest rate was only in 2012 (Figure 1).

In 2018 the biggest volume of exports to Turkmenistan was the production of (Jumaev, 2013):

- ferrous metallurgy (pipes, articles made of ferrous metals) – 37,8%;
- machine building (electric machines, locomotives, mechanical devices, railroad cars) – 42.8%;
- chemical industry (inorganic chemistry, rubber products, medical products, varnishes, paints, detergents) – 7.3%;
- agro-industrial complex (milk and dairy products, sugar and confectionery products, cocoa and products thereof, alcoholic and non-alcoholic beverages) – 10.0%.

During 2009-2018 exports of metal products decreased by 66.3 mln USD or by 44.5% due to the reduction of exports of ferrous metal products by 65.9% (93.7 mln USD) (Dvostoronnia ..., 2018).



**Fig.1. Dynamics of Exports of Goods to Turkmenistan, mln USD (Ofitsiinyi..., 2018)**

In 2019 a significant increase in the exports of ferrous metal products is expected due to the State concern „Turkmengaz“ that plans to provide the construction of the Trans-Turkmen gas pipeline „TAIP“ at the expense of pipe products’ supplies from Ukraine.

The exports of machine-building products decreased by 68.49 mln USD or almost 70% due to the reduction of exports during 2009-2018, especially such items as:

- boilers, machines, vehicles for 40 mln USD or 82.5% (8.46 mln USD);
- electric machines and equipment for 14.75 mln USD or 56.5% (11.35 mln USD);
- land vehicles for 18.8 mln USD or almost 6 times (3.56 mln USD).

A significant reduction in exports of boilers, machines and apparatuses is due to the completion of deliveries by a private joint stock company (PJSC) «Sumy MNVO of Frunze». They are necessary for the construction of compressor stations «Naip» and «Khazar».

According to the forecast, in 2019 the growth of exports of land vehicles can be possible due to the supply of truck cranes.

There is also a significant increase in exports of agro-industrial products during the aforementioned period. Thus, the growth of exports of this group of goods amounted to 17 mln USD or 36.4%, including:

- cocoa and its products by 17% (14.21 mln USD);
- sugar and confectionery products by 66.8% (11.2 mln USD);
- grain crop products by almost 75% (9.8 mln USD);
- alcoholic and non-alcoholic beverages at 27.4% (9.8 mln USD);
- milk and dairy products by 2.2% (5.3 mln USD);
- fats and oils by 52.8% (4.3 mln USD).

In 2018 there has been an increase in exports of chemical products to Turkmenistan for the first time in recent years. Exports of these products increased by 3.5 mln USD or by 37.2%, including:

- pharmaceutical products by 26.6% (4.1 mln USD);
- polymeric materials and plastics by 4.2% (2.3 mln USD);
- other products of the chemical industry by 168.6% (2.3 mln USD).

At the same time, rubber and rubber exports declined by 45.8% (0.77 mln USD).

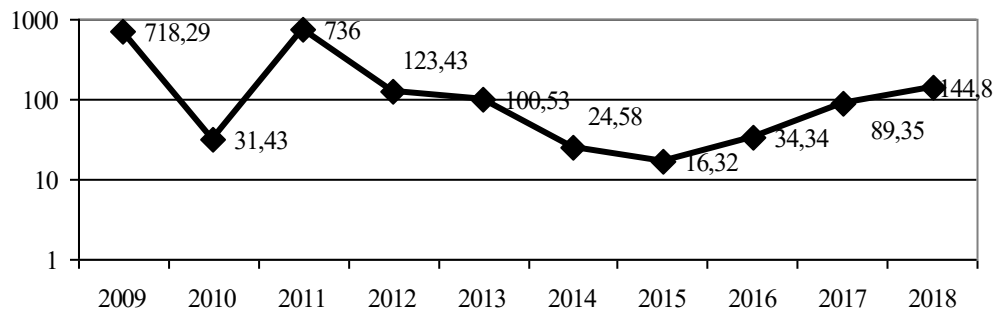
In 2018 the following goods have been exported with a steady growth of volumes to Turkmenistan as:

- wood, paper, cellulose – 4.4 mln USD (+ 115.7%);
- furniture – 9.5 mln USD (three times more).

At the same time, exports of light industry products declined by 2 mln USD (almost 3 times), exports of products by 0.95 mln USD. Exports of stone and gypsum products decreased by 2.9 mln USD (54%), exports of products by 2.5 mln USD (Dvostoronnia ..., 2018). In 2018 the volume of export of services to Turkmenistan was 72.98 mln USD and increased by 6.5% compared to 2009.

The largest volumes of exports accounted for construction services – 85.6% of the total volume of the country, informational services – 14.5%, services related to traveling 10.3%, business services – 1.2%, transport services – 0.5%, repairing and maintenance services – 0.1%.

In 2018 imports of goods from Turkmenistan was 144.80 mln USD and decreased by 79.84% (573.49 mln USD) during the 2009-2018 (Figure 2). In 2018 imports of goods from Turkmenistan to Ukraine was 3.5 mln USD and consisted mostly of light industry products. Their volume grew by 185% during 2009-2018. The prevailing share was exports of cotton – 2.5 mln USD and products of the chemical industry – 0.67 mln USD (its volume has increased by almost 5 times). In 2018 the volume of imports of services from Turkmenistan was 23.55 mln USD and increased by 66.75%.



**Fig. 2. Dynamics of Imports of Goods from Turkmenistan, mln. USD (Ofitsiyni..., 2018)**

Transport services took the largest share in the total import of services from Turkmenistan – 20.4%, business – 11.8%, services related to traveling – 3.6%, as well as state and government services – 1, 6%, services related to financial activities – 0.2%, repairing and maintenance services – 0.1% (Ofitsiyni ..., 2018).

In general, there has been a marked decline in trade between Ukraine and Turkmenistan over the past decade. The main problems of such a situation can be dismissed:

- geopolitical realities of Ukraine;
- an excessive presence of intermediary structures of third countries that are not interested in the development of Ukrainian-Turkmen foreign trade relations;
- obstacles created by the Russian Federation concerning trade in goods between Ukraine and Turkmenistan;
- unregulated issues of payment for natural gas, in particular the price and balance of commodity and currency (Turkmenistan insists on cancellation of barter and increase of currency);
- Russian monopoly on Turkmen energy resources' supply to Ukraine;
- certain trade conflicts and inconsistencies between the Russian Federation and Turkmenistan regarding the supply of Turkmen gas to the world markets (Ukraina-Turkmenistan ..., 2018).

However, despite such negative trends, Turkmenistan attracts Ukrainian producers. Firstly, as a market for industrial and domestic food products' sale; secondly, as a country with advanced technologies, scientific development, engineering and technical works. In addition, the industrial and agrarian sectors of the economy of Turkmenistan need products and materials for oil and gas, mining, military-technical branches, chemical, food and processing industries, and almost all types of transport.

There are significant opportunities for exports of oil and gas, repairing and exploitation of oil and gas wells, repairing of industrial and energy equipment, reconstruction of oil refineries and chemical enterprises, extraction and processing of minerals, exploration, maintenance of export supplies of Turkmen gas to the European market; training of Turkmen specialists for different fields, such as: economics, industry, agriculture, academic science and higher education. In turn, Turkmenistan is interested in supplying Ukrainian industrial and food products, as well as using its scientific and technical potential. This is due to the number of factors, such as:

- a proximity of Ukrainian and Turkmen technical and technological standards and a certain technological dependence of the industry of Turkmenistan on supply of Ukrainian machinery, equipment and spare parts, metal products, scientific and technical developments;
- availability of a gas pipeline system for the export of Turkmen gas to the European markets that is the source of foreign exchange earnings and commodity deliveries for Turkmenistan;

– trade and economic cooperation between Ukraine and Turkmenistan, aimed at the further purchase of Turkmen gas and payment in currency, as well as partially barter of products and services (Ukraina-Turkmenistan ..., 2018).

## **5. Conclusions**

As a result of the analysis, main conclusions have been made:

1. Foreign trade relations are one of the priority areas of Ukrainian-Turkmen cooperation that have the potential for further development.

2. Turkmenistan is an important partner of Ukraine that is confirmed by the legal framework of the bilateral cooperation and active political dialogue. The commodity and country diversification meet the national interests of both countries.

3. In the last decade, there has been a negative trend in the trade between Ukraine and Turkmenistan (the current exponents have decreased almost threefold; the domination of the metallurgical complex and mechanical engineering production was preserved).

4. The main reasons of this situation are such as: geopolitical realities of Ukraine; the excessive presence of intermediary structures of third countries that are not interested in the development of Ukrainian-Turkmen foreign trade relations; obstacles that are artificially created by the Russian Federation, etc.

5. Natural gas has the biggest importance in the foreign trade cooperation of both countries. The possible ways of diversified gas supply from Turkmenistan to Ukraine are as following:

- the purchase of liquefied gas, delivering it through the Caspian Sea – Azerbaijan – Georgia – Black Sea;
- laying of the Trans-Caspian gas pipeline by entering the TANAP-TAPI pipeline (Southern Gas Corridor – South Caucasus Gas Pipeline (Baku – Tbilisi – Erzurum) expansion project;
- the construction of TANAP gas pipeline in Turkey and its extension to Europe – TAP pipeline;
- the production of Turkmen natural gas across the Caspian Sea to European markets and further to Ukraine;
- joining the European Union Nabucco gas transport project developed by the Austrian energy concern OMV, which envisages the gas transit from Iran, Turkmenistan and Azerbaijan through Turkey and the Balkans to bypass the Russian Federation.

6. The main political risks related to the implementation of the gas supply diversification projects in Ukraine are such as: Russia's counteraction to these projects, including the expansion of gas imports' control of Turkmenistan; political instability and significant dependence on the will of political leadership in the Caucasus and Caspian region; contradictions in the status of the sea. Among the main obstacles to the implementation of these gas transportation projects, besides significant cost and political risks, are technical difficulties (pipelines on the seabed and in the mountainous terrain), as well as security of supply, which is determined by instability in the countries of the route.

7. In our opinion, the non-energy sector has also prospects for deepening foreign trade relations between Ukraine and Turkmenistan. There are particularly favourable conditions for traditional Ukrainian export commodities, especially ferrous metallurgy and food. As to the latter, the most promising areas of cooperation are the creation of joint agricultural and processing enterprises; the supply of the agricultural machinery to Turkmen market and the establishment of the service centers' network. The information services' market of Turkmenistan has also a significant potential for increasing the export of services in Ukraine.

8. In order to further establishment of the effective foreign trade relations with Turkmenistan, the Government of Ukraine should:

- to expand the scope of the Joint Intergovernmental Ukrainian-Turkmen Commission on Trade and Economic Cooperation by adding a political dimension to its cooperation;



- to involve appropriate profiles of scholars in its work to develop an adequate policy situation for the implementation of Ukrainian trade interests in Turkmenistan;
- to develop an effective legal mechanism for international partnership in the energy supply.

9. The readiness of both countries for further cooperation, the implementation of joint programs for the development of foreign trade relations and the development of mechanisms for their implementation will allow Ukraine and Turkmenistan to achieve a positive economic effect.

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