

# Ukraine and the United States Bilateral Trade Recommendations:

## *An Analysis of Strategic Sectors* *1. Information Technology (IT)*



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## **Abstract**

The relationship between the United States and Ukraine is one of increasing importance over the last decade. This is certainly the case in the sphere of international trade. As of February 2020, Ukraine was ranked number 70 in terms of bilateral trade with the U.S. at a year-to-date value of \$488.16 million. The total amount of bilateral trade between the Ukraine and the United States in 2019 was \$3.65 billion and that number has been steadily rising since 2015.

The purpose of the present report is to detail the potential for such trade between Ukraine and the United States to expand more as well as the key areas in which this expansion could take place. The report will focus primarily on trade between the Western region of the United States, with a particular focus on California. The report will cover four main sectors of potential expansion: agriculture, energy, aerospace and information technology (IT). These were chosen as priority sectors given their strategic and economic importance.

The first section herein will provide a historical overview of trade between the United States and Ukraine as well as an outline of the legislative structure of Ukraine-U.S. bilateral trade. It will also contain market analyses and an examination of both key incentives and potential hurdles for Ukrainians wishing to enter the U.S. market and Americans entering the Ukrainian market.

The second and third sections compose the Ukraine Import-Export Manual. This will serve as a practical guide for exporters and importers in either country seeking guidance in the particular procedures involved in importing into the United States from Ukraine and vice versa. Annexes will be provided to detail the nuances in each of the four priority sectors as well as give sample documentation those trading goods and services must be familiar with. These additional sections will be provided in further publications.

By demonstrating the historical trends and current state of these respective market environments, as well as practical guidance, this report can provide useful insights to the top trade priorities of Ukraine: promoting exports and attracting foreign investment. It will also contribute to the aims of the United States by providing recommendations for strengthening relations with a key trading partner as well as providing a roadmap for future investments and market access in Eastern Europe. The bilateral relationship between the U.S. and Ukraine is one of both economic and geopolitical significance and an increase in trade will only serve to solidify these increasingly important links.

# Part I

**Analysis of Ukraine-U.S. Trade  
& Market Dynamics**

## Note to Reader

In the following sections, a number of recommendations will be interspersed throughout. These are meant as operational recommendations (ORs) and do not make comment on policy measures in either Ukraine nor the United States. Policy recommendations will be reserved for a later date. However, operational recommendations serve as suggestions for both public and private sector entities in either country to most effectively navigate the bilateral trade and investment climate as it currently stands.

Recommendations will be divided into two categories: those focused on Ukrainian entities and those focused on American entities.

Those for the Ukrainian side will be indicated by a blue box and a 1x alphanumeric code starting with the number 1. Those for the American side will be placed within a goldenrod box and an alphanumeric code starting with the number 2. This is done both for organizational purposes as well as ease of reference. Please see below for an example. A full list can be found starting on page 120 below.

### **O.R. 1x** (*Targeted for Ukrainian perspective*)

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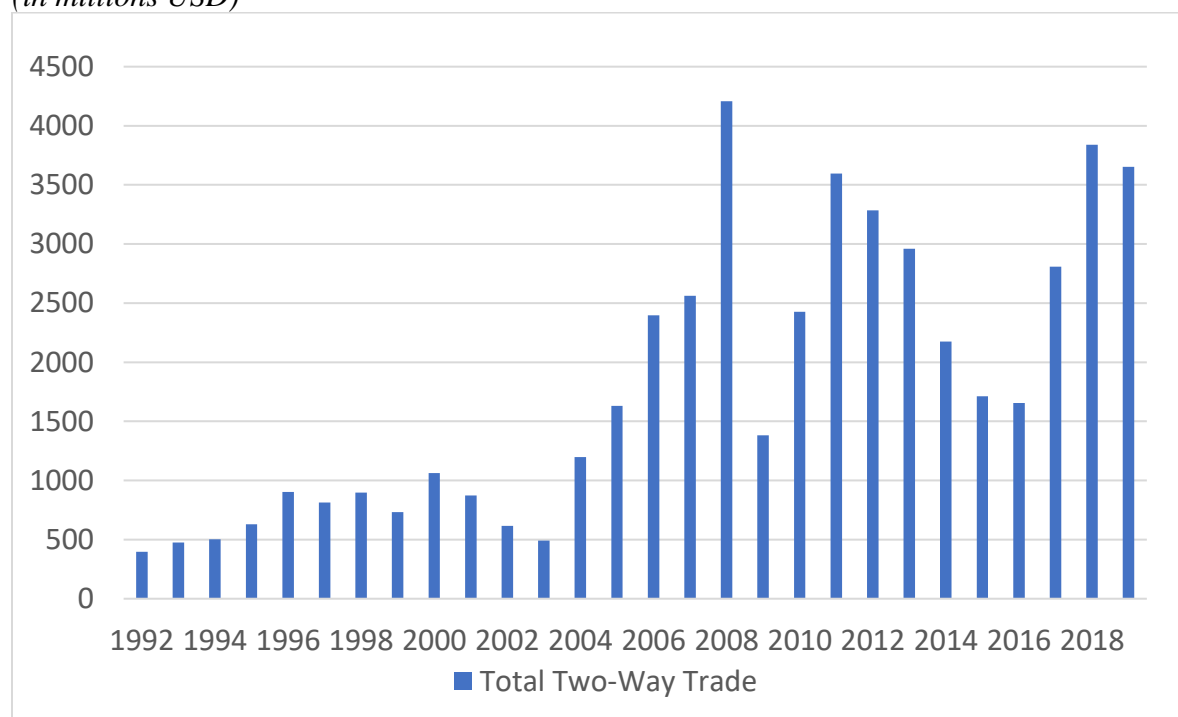
### **O.R. 2x** (*Targeted for U.S. perspective*)

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## 1.1 Overall Trade Trends

Trade between the United States and Ukraine has been relatively robust in recent years. Since Ukraine gained independence in August 1991, the volume of trade between Ukraine and the U.S. has grown by more than 900% when compared to the end-of-year data for 2019.<sup>1</sup> It has increased by about 168% since the Ukrainian Revolution of Dignity in 2014.<sup>2</sup> In 2019, total trade between the United States and Ukraine totaled \$3.65 billion, with \$2.35 billion in U.S. exports to Ukraine and \$1.3 billion in imports from Ukraine. Figure 1 demonstrates the overall trend in trade by value between the Ukraine and the United states since 1992. Figures 2 and 3 provide information on the top 5 goods traded in either direction during 2019.<sup>3</sup>

**Figure 1: Historical Total Two-Way Trade Between Ukraine and the U.S.**  
(in millions USD)



<sup>1</sup> Data from State Statistics Service of Ukraine (hereinafter “SSSU”) <<https://ukrstat.org/en/>>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

Iron and items of iron continue to be at the top of the list for imports from Ukraine, with pig iron and iron tubes and pipes being the first and second by value in 2019 respectively.

<b>Figure 2 – Top Imports from Ukraine to the United States (2019)</b> <i>(by value)</i>			
<b>Ranking</b>	<b>Good</b>	<b>Value</b>	<b>Share of 2019 Imports</b>
1.	Pig Iron	\$493 million	38%
2.	Seamless Iron Tubes & Pipes	\$153 million	12%
3.	Fruit and Vegetable Juices, Not Fortified	\$45.8 million	3.5%
4.	Cell Phones, Related Equipment	\$32.2 million	2.5%
5.	Furnishing Articles of Textile Materials	\$31.3 million	2.4%

In terms of U.S. exports to Ukraine during 2019, coal and passenger vehicles topped the list. High values of tractor and civilian aircraft parts from the United States also point to collaboration potential in the agriculture and aerospace sectors, as will be discussed herein.

<b>Figure 3 – Top Exports from the United States to Ukraine (2019)</b> <i>(by value)</i>			
<b>Ranking</b>	<b>Good</b>	<b>Value</b>	<b>Share of 2019 Imports</b>
1.	Coal, Briquettes	\$720 million	31%
2.	Passenger Vehicles	\$535 million	23%
3.	Tractors	\$89.6 million	3.8%
4.	Civilian Aircraft, Parts	\$86.1 million	3.7%
5.	Frozen Fish	\$75 million	3.2%



This overall picture of trade between Ukraine and the United States is hopeful in that trade in goods and services continues to increase over time. This is due to a variety of different factors, not least of which include coordinated efforts for greater cooperation as well as improvements in the regulatory framework of Ukraine. This has provided ample opportunity for trade and investment to flow between the two nations. To demonstrate the past successes of Ukrainian-U.S. trade and future business opportunities, the following sections will highlight four critical sectors:

- Information Technology (IT)
- Agriculture
- Aerospace
- Energy

These sectors were chosen for their growth potential as well as their strategic priorities for both the Ukrainian and the American economies. The following sections, in addition to providing an overview of the state of bilateral economic relations between Ukraine and the United States, will elaborate on the aforementioned sectors and the trade and investment incentives that can be taken advantage of in the current market climate.

### ***1.1.2 Initiatives to Increase Trade by U.S. and Ukraine***

The volume of trade between Ukraine and the United States has been assisted by the initiatives taken by both sides to further solidify their economic relationship. When Ukraine gained its independence in the early 1990's, it was evident that a pivot in trade flows would be an essential element to increasing bilateral relations. Even as early as May 1992, the Los Angeles Times published a report highlighting the Ukrainian American Chamber of Commerce's work to establish a chapter in Southern California as well as the moves large American companies were making to

secure joint venture opportunities in the newly opened country.<sup>4</sup> This is just one of countless examples of the swiftness with which both American and Ukrainian business sought to further cooperation. This was taken to a new level by the creation of the Ukraine-U.S. Bilateral Investment Treaty (BIT).

Signed in 1994, both countries desired “to promote greater economic cooperation...with respect to investment by nationals and companies” of each territory.<sup>5</sup> The BIT entered into force in 1996 and remains the guiding document underlying investment cooperation between the U.S. and Ukraine. A comprehensive table of the Ukraine-U.S. BIT can be found in Section 1.1.4(1), as mapped by the Xiamen University School of Law (China) and the Korea University Law School (South Korea) in collaboration with UNCTAD.<sup>6</sup> Overall, the BIT provided a wide variety of provisions for enhancing the investment climate and provide dispute settlement mechanisms to facilitate trade.

2008 was a major year for the furtherance for Ukrainian-American trade. On April 1, 2008, a landmark agreement, The Ukraine-United States Trade and Investment Cooperation Agreement (TICA), was signed between the two countries. One of the most important provisions of the TICA, pursuant to Article II of the agreement, was the establishment of a Ukraine-United States Council on Trade and Investment.<sup>7</sup> According to the provisions outlined in Article III of the agreement, this Council was delegated the following duties:

“1. Monitor trade and investment relations between the Parties, identify opportunities for expanding trade and investment and identify relevant issues

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<sup>4</sup> Lee, Cristina. “Ukraine Trade Group May Open O.C. Chapter”. Los Angeles Times. May 30, 1992. <<https://www.latimes.com/archives/la-xpm-1992-05-30-fi-306-story.html>>

<sup>5</sup> “Treaty Between the United States of America and Ukraine Concerning the Encouragement and Reciprocal Protection of Investments”. (hereinafter “Ukraine-U.S. BIT”) <<https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/2366/download>>

<sup>6</sup> “Ukraine-United States of America BIT (1994)”. <<https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bit/3054/ukraine---united-states-of-america-bit-1994->>>

<sup>7</sup> Ukraine-U.S. BIT, Article II

2. Consider specific trade and investment matters of interest to the Parties
3. Identify and work to remove impediments to trade and investment between the Parties
4. Seek and receive the advice of the private sector and civil society, where appropriate, on matters related to the Council's work”<sup>8</sup>

As then-U.S. Trade Representative Susan C. Schwab noted in a U.S. government press release, “the agreement will provide an important tool for both parties to strengthen the already robust trade and investment relationship between our two countries, and will assist Ukraine's efforts to expand its economy and diversify its markets.”<sup>9</sup>

The TICA was signed just ahead of Ukraine joining the World Trade Organization (WTO). Ratified by the Ukrainian President in April 2008 and with the accession being finalized on May 16, 2008, Ukraine became the 152<sup>nd</sup> member of the WTO. Ambassador Schwab also noted that Ukraine's accession into the WTO demonstrated “important strides to modernize its economy and attract foreign trade and investment” and that the TICA would provide a “solid foundation for discussion of the full range of trade and investment issues.”<sup>10</sup>

To date, there have been nine meetings of the Trade and Investment Council (TIC), with the last meeting being November 2019. The U.S. Embassy in Ukraine wrote that, “following the recent [2019] elections in Ukraine, the U.S. and Ukrainian governments pledged to work together to help Ukraine take steps toward reforming its economy and strengthening its business and investment environment.”<sup>11</sup> Of note during the November 2019 meeting was the acknowledgement of the work of the Council's working groups (the Working Group on Sanitary and Phytosanitary

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<sup>8</sup> Ibid, Article III

<sup>9</sup> Office of the United States Trade Representative, “United States and Ukraine Sign Trade and Investment Cooperation Agreement (TICA)”. April 1, 2008. < [https://www.usubc.org/news/ustr\\_ukraine040108.php](https://www.usubc.org/news/ustr_ukraine040108.php)>

<sup>10</sup> Ibid.

<sup>11</sup> U.S. Embassy in Ukraine, “Joint Statement On The Ninth Meeting Of The United States – Ukraine Trade And Investment Council”. November 1, 2019 <<https://ua.usembassy.gov/joint-statement-on-the-ninth-meeting-of-the-united-states-ukraine-trade-and-investment-council/>>

Issues and the Working Group on Technical Barriers to Trade) to reduce or eliminate regulatory barriers to trade. There was also “tangible progress on key intellectual property (IP) rights issues,” as noted by the delegations to the meeting.<sup>12</sup> Finally, it is important to point out that Ukraine is working on a pilot program towards the creation of an electronic platform that the government could use to publicize draft regulatory measures, accept public comments and provide its responses. Similar to the system of advanced notices of proposed rulemaking (ANPRM) in the United States, this will allow for greater input by the private sector on future Ukrainian legislation as well as provide an important tool for those keeping a pulse on the Ukrainian investment climate. As noted by the Embassy, this is another example demonstrating that “Ukraine committed to maintaining a transparent and predictable regulatory regime.”<sup>13</sup>

#### **O.R. 1a**

- **Further Publicize TIC Meetings and Results** – ensure U.S. business partners understand the progress made through these meetings and the potential benefits that will result from the Working Group meetings

#### **O.R. 2a**

- **Further Utilize the TIC Meetings for Industry Collaboration** - given that it is in the mandate of the TICA to receive advice from the private sector, U.S. companies should work with Ukrainian industry to determine overlapping interests and how such trade treaties can increase trade in goods and services.

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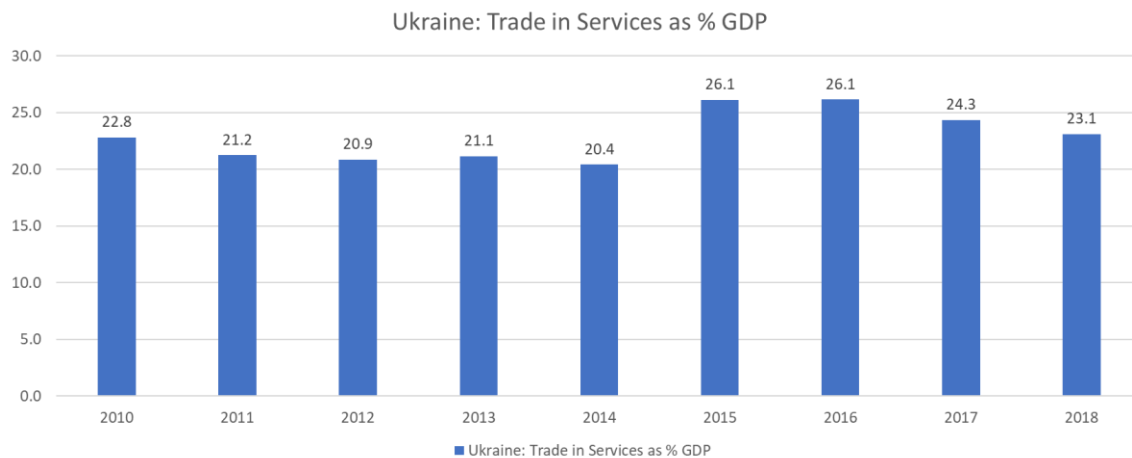
<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

### 1.1.3 Trade in Services

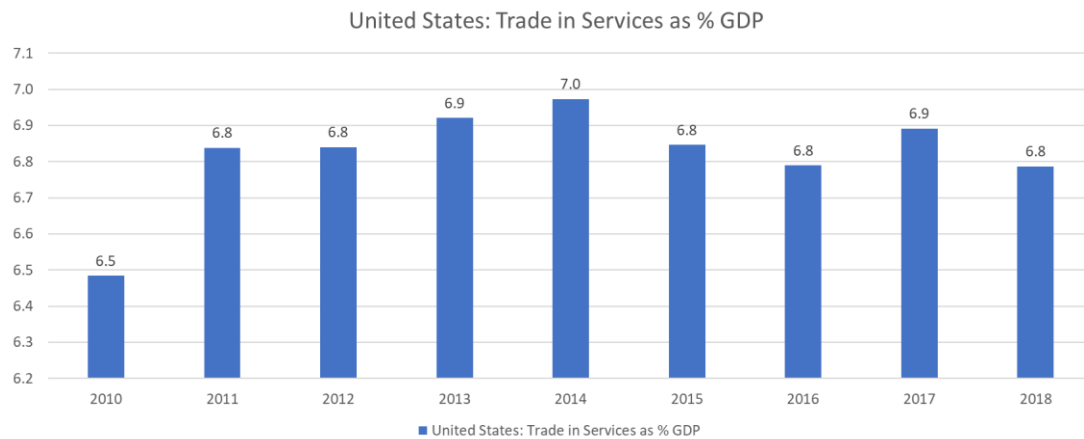
Trade in services between Ukraine and the United States is a critical sector for analysis. As the Congressional Research Services noted in January 2020, “rapid advances in information technology and the related growth of global value chains have expanded both the level and the range of services tradable across national borders. As a result, services have become a priority in U.S. trade policy.”<sup>14</sup> The same is undoubtedly true in Ukraine, which has had trade in services composing between 20 and 25% of its GDP in the last ten years. These figures can be found for both Ukraine and the U.S. in Figures 4 and 5 below.

**Figure 4**



<sup>14</sup> Congressional Research Service, “U.S. Trade in Services: Trends and Policy Issues”. January 22, 2020. <https://fas.org/sgp/crs/misc/R43291.pdf>

**Figure 5**



For the United States, it is estimated that services account for 71% of U.S. employment<sup>15</sup> and the ability for Ukrainians to export their services abroad is key for continued economic growth. Collaboration between Ukraine and the U.S. in the realm of services has trended in a positive direction and trade in services between the two nations is quite robust. Figure 6 shows the trends in trade in services between 2008 and 2018, differentiating between exports and imports.<sup>16</sup> Interestingly, the amount of service exports from Ukraine has always been greater than the amount of service imports from the United States (in USD value).

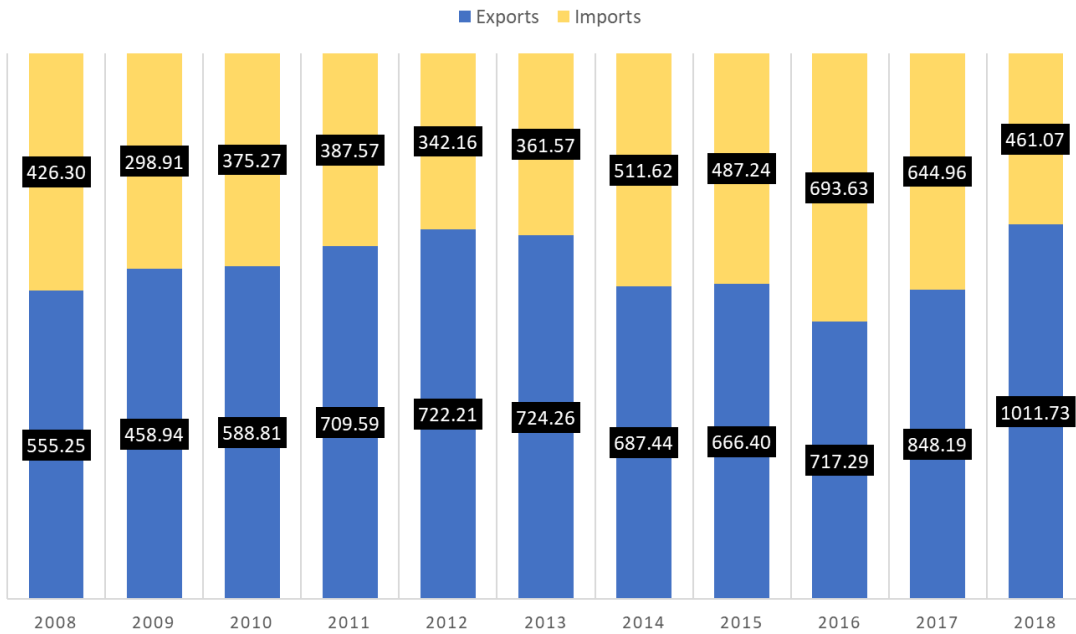
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<sup>15</sup> Ibid.

<sup>16</sup> SSSU

**Figure 6**

**UKRAINE – U.S. BILATERAL TRADE IN SERVICES**  
*(in millions USD)*



In 2019, both the exports and imports in bilateral trade in services have increased by 120.5% and 107.5% respectively when compared to the 2018 figures.<sup>17</sup> This data can be observed in Figure 7. While the economic situation caused by COVID-19 may cause this trend to stall for a short period of time, this trajectory is a positive indication of activity increasing between Ukraine and the U.S. in the global service economy.

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<sup>17</sup> Ibid.

<b>Figure 7 – Ukraine-U.S. Total Bilateral Trade in Services (2019)</b>					
<b>Exports to U.S.</b>			<b>Imports from U.S.</b>		
<b>USD Value (in million USD)</b>	<b>% of 2018</b>	<b>% of Ukrainian trade in services to all countries</b>	<b>USD Value (in million USD)</b>	<b>% of 2018</b>	<b>% of Ukrainian trade in services from all countries</b>
\$1,219.4	120.5%	8%	\$495.6	107.5%	7.59%

Trade in services between the United States and Ukraine is an important area to analyze when assessing for potential areas of growth. This is particularly true given the large share of Ukraine’s GDP composed of trade in services and the amount of American employment that depends on services. On the Ukrainian side, the critical area of services trade to focus on is the telecommunications sector. Excluding state and government services, business services is the largest service area exported from the United States to Ukraine. This provides an opportunity for a beneficial relationship. As Ukraine focuses on expanding its business presence and promoting exports abroad, this is a great chance for business service providers in the United States to capitalize on this economic strategy. This would be a win-win situation, for it provides Ukrainian exporters with increased output and U.S. business service providers the chance to work with those exporters. Figure 8 shows the top 5 sectors of service exports between Ukraine and the United States in 2019.

**O.R. 2b**

- **Seek opportunities for U.S. exports of business development services to Ukraine** – this not only provides American service companies with revenue, but also helps Ukrainian business infrastructure develop. This is an area of bottom-up development that can be of benefit to all sectors.



Figure 8 – Ukraine-U.S. Bilateral Trade in Services by Sector (2019)					
Ukraine Exports to U.S.			U.S. Exports to Ukraine		
Sector	USD Value (in million USD)	% of total trade in services value	Sector	USD Value (in million USD)	% of total trade in services value
1. Telecommunications, computer & IT services	\$814.74	66.8%	1. State & government services	\$213.41	43.1%
2. Transport services	\$192.98	15.8%	2. Business services	\$119.33	24.1%
3. Business services	\$144.17	11.8%	3. Telecommunications, computer & IT services	\$62.76	7.6%
4. Financial services	\$37.17	3%	4. Royalties and other services connected with the use of intellectual property	\$25.34	5.1%
5. Travel services	\$13.43	1.1%	5. Transport services	\$24.60	5%

The regulations surrounding trade in services are also of particular importance when understanding bilateral trade in these areas between Ukraine and the United States. Upon its accession to the WTO in 2008, Ukraine also became a member of the General Agreement on Trade in Services (GATS). This agreement solidified the most-favored-nation and national treatment provisions of the WTO to the international service sector as well as put into place several important mechanisms for progressive trade liberalization. The GATS identified four modes of service delivery that address the complexity inherent in the services trade and serve as the foundation for countries' agreements for trade liberalization in this space:

- **Mode 1 – Cross-border Supply:** The service is supplied from one country to another. The supplier and consumer remain in their respective countries, while the service crosses the border
- **Mode 2 – Consumption Abroad:** The consumer physically travels to another country to obtain the service.
- **Mode 3 – Commercial Presence:** The supply of a service by a firm in one country via its branch, agency, or wholly-owned subsidiary located in another country

- **Mode 4 – Temporary Presence of Natural Persons:** Individual suppliers travel temporarily to another country to supply services.<sup>18</sup>

Both the United States and Ukraine have made considerable commitments to liberalizing their service sectors in the context of international trade. For illustration, the Schedule of Commitments and Exemptions under the GATS for Ukraine will be briefly outlined below. However, the full list of commitments and exemptions for both parties can be found using the WTO’s search tool which can be found [here](#) and is also provided in the footnote below.<sup>19</sup> After its accession to the WTO, Ukraine has made “a considerable level of commitments in relation to trade in services”.<sup>20</sup>

<b>Figure 9 - Major Areas of Service Trade Liberalization after Ukrainian WTO Accession</b>
<b>Modes 1 - 3</b>
Business Services
Communication Services
Construction and Related Engineering Services
Distribution Services
Educational Services
Environmental Services
Financial Services
Health-related and social services
Tourism and travel-related services

<sup>18</sup> Rachel Fefer, “Trade in Services Agreement (TiSA) Negotiations: Overview and Issues for Congress”. Congressional Research Service. January 3, 2017 < <https://fas.org/sgp/crs/misc/R44354.pdf>>

<sup>19</sup> World Trade Organization, “Schedules of specific commitments and lists of Article II exemptions” <[https://www.wto.org/english/tratop\\_e/serv\\_e/serv\\_commitments\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm)>

<sup>20</sup> Anzhela Makhinova and Victoria Mykuliak, Sayenko Kharenko. “International Trade in Goods and Services in Ukraine: Overview”. Thomson Reuters Practical Law. <[https://uk.practicallaw.thomsonreuters.com/6-621-3097?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/6-621-3097?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1)>

Recreational, cultural and sporting services
Transport Services

With regard to Mode 4 (presence of natural persons), Ukraine made horizontal commitments that apply to all sectors included in its Schedule of Commitments. Mode 4 was left unbound. Hence, foreign nationals seeking to do business in Ukraine must obtain a work permit. However, it is important to note that certain categories of employees are exempt from this requirement, including:

- Intra-corporate transferees
- Service Sellers
- Natural persons providing services without a commercial presence
- Natural persons responsible for establishing a commercial presence

As is standard practice, Ukraine has made certain exceptions “relating to national treatment with respect to land ownership and access to subsidies and other forms of state support.”<sup>21</sup>

Finally, Ukraine has also made commitments to promptly publish legislation regarding trade in services and has provided a platform for interested parties to provide comment. The electronic platform mentioned by TICA in the previous section of this report will further serve this end.

Regarding restrictions on market access for specific services sectors, interested parties should refer to Ukraine’s Law on Licensing of Economic Activity Types No. 222-VIII (in Ukrainian)<sup>22</sup>.

Additional English-language resources comprehensively outlining Ukrainian trade in service liberalization and restriction can be found in the footnote below.<sup>23</sup>

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<sup>21</sup> Ibid.

<sup>22</sup> Закон України: Про ліцензування видів господарської діяльності (Відомості Верховної Ради (ВВР), 2015, № 23, ст.158) <<http://zakon3.rada.gov.ua/laws/show/222-19/print1503429277421995>>

<sup>23</sup> Id 20

#### **O.R. 1b**

- **Assist American business partners understand Ukrainian licensing laws** – providing support throughout the process will enable American service providers and investors greater assurance in establishing a business presence in Ukraine.

#### ***1.1.4 Investment Climate***

The investment climate in Ukraine is one that is characterized by both great potential and particular structural hindrances, although there are good indications that the latter are trending in a positive direction. The U.S. State Department noted in its 2019 Investment Climate Statement that “Ukraine has significant investment potential given its large consumer market, highly educated and cost-competitive work force, and abundant natural resources.”<sup>24</sup> The report also notes some of the challenges foreign investors cite as impediments, such as the judicial system issues, protection of property risks and powerful vested interests. However, it also notes that Ukraine has taken significant steps in these areas and that “U.S. companies have found success in Ukraine, particularly in the agriculture, consumer goods and technology sectors.”<sup>25</sup> The investment climate will be broken down at length with respect to the four sectors of interest (IT, agriculture, aerospace and energy) in later sections

Figure 10 summarizes some of the privileges and restrictions to foreign investment pursuant to the Law of Ukraine “On Investment Activity”<sup>26</sup>.

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<sup>24</sup> U.S. Department of State, “2019 Investment Climate Statements: Ukraine” <<https://www.state.gov/reports/2019-investment-climate-statements/ukraine/>>

<sup>25</sup> Ibid.

<sup>26</sup> “Law of Ukraine on the Regime of Foreign Investments”, UNCTAD Investment Policy Hub. <<https://investmentpolicy.unctad.org/investment-laws/laws/253/ukraine-law-on-the-regime-of-foreign-investments>>

<b>Figure 10 – Ukraine Privileges for and Restrictions on Foreign Investment</b>
<b>Privileges and Guarantees for Foreign Investors</b>
Protection against changes in legislation
Protection against nationalization
Guarantee for compensation and reimbursement of losses
Guarantee in the event of the termination of investment activity
Guarantee of profit repatriation
Exemption from paying import duties
Public-private partnerships
Free economic zones
<b>Restrictions to Investment Activity</b>
Certain types of business activity may be pursued only by state-owned enterprises (e.g. rocket industry)
Restrictions on foreign ownership of agricultural land (pursuant to Land Code of Ukraine <sup>27</sup> ).

Baker McKenzie notes that Ukraine has sought to provide foreign investors equal treatment to domestic investors with few exceptions. A more detailed analysis of these privileges and restrictions can be found in their 2019 report, *Conducting Business in Ukraine*.<sup>28</sup>

#### **1.1.4 (1) Bilateral Investment Treaty Status**

To date, Ukraine has entered 79 Bilateral Investment Treaties (BITs) with other countries and the United States has entered into 47.<sup>29</sup> The BIT between Ukraine and the United States is currently in force. It was based on a prototype drafted in 1992 to facilitate economic collaboration and strengthen the investment climate between the two parties. The treaty was signed on March 4, 1994 and entered into force on November 16, 1996. As per the text of the BIT, its primary objectives are as follows:

- “All forms of U.S. investment in the territory of Ukraine are covered.

<sup>27</sup> “The Land Code of Ukraine| of 25.10.2001 № 2768-III”

<<http://www.unece.org/fileadmin/DAM/hlm/prgm/cph/experts/ukraine/laws/land.code.pdf>>

<sup>28</sup> Baker McKenzie, “Conducting Business in Ukraine 2019”

<sup>29</sup> “Ukraine Bilateral Investment Treaties (BITs)”, UNCTAD Investment Policy Hub.

<<https://investmentpolicy.unctad.org/international-investment-agreements/countries/219/ukraine>>

- Investments receive the better of national treatment or most-favored-nation (MFN) treatment both on establishment and thereafter, subject to certain specified exceptions.
- Performance requirements may not be imposed upon or enforced against investments.
- Expropriation can occur only in accordance with international law standards; that is, for a public purpose; in a nondiscriminatory manner, in accordance with due process of law, and upon payment of prompt, adequate, and effective compensation.
- The unrestricted transfer, in a freely usable currency, of funds related to a covered investment is guaranteed.
- Investment disputes with the host government may be brought by investors, or by their subsidiaries, to binding international arbitration as an alternative to domestic courts.”<sup>30</sup>

The United Nations Conference for Trade and Development (UNCTAD) has created a database to summarize bilateral investment treaties across the globe. A truncated version of UNCTAD’s treaty map is provided in Figure 11 below. A full version can be found in the footnote below.<sup>31</sup>

<b>Figure 11 – Ukraine-United States BIT: Treaty Map</b> <i>(Truncated Version)</i>	
<b>Preamble</b>	
Reference to right to regulate (e.g. regulatory autonomy, policy space, flexibility to introduce new regulations)	No
Reference to sustainable development	No
Reference to social investment aspects (e.g. human rights, labor, health, CSR, poverty reduction)	Yes
Reference to environmental aspects (e.g. plant or animal life, biodiversity, climate change)	No
<b>Scope &amp; Definitions</b>	
Definition of Investment	Asset-based definition
Excludes Portfolio Investment	No
Excludes other specific assets (e.g. ordinary commercial transactions, etc.)	No
Lists required characteristics of investment	No
Contains "in accordance with host State laws" requirement	No

<sup>30</sup> Ukraine-U.S. BIT

<sup>31</sup> “Ukraine - United States of America BIT (1994),” UNCTAD Investment Policy Hub  
<<https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bilateral-investment-treaties/3054/ukraine---united-states-of-america-bit-1994->>

Sets out closed (exhaustive) list of covered assets	No
Definition of Investor Included	Yes
Includes permanent residents	No
Excludes dual nationals	No
Includes requirement of substantial business activity	No
Defines ownership and control of legal entities	No
Denial of Benefits clause included	Yes
Excludes taxation	Yes
Excludes subsidies, grants	No
Excludes government procurement	No
Standards of Treatment	
Type of National Treatment clause	Pre- and post-establishment
Reference to "like circumstances"	Yes
Type of Most-favored-nation (MFN) treatment	Pre- and post-establishment
Exceptions to MFN Obligation	Economic Integration Agreements Taxation Treaties
State-State Dispute Settlement (SSDS) included	Yes
Investor-State Dispute Settlement (ISDS) included	Yes
<b>Treaty Duration</b>	
Years of initial treaty term	10 years
Automatic renewal	Indefinite term

**1.1.4 (2) Arbitration Climate**

Ukraine is a signatory to many international agreements regarding dispute settlement and there are several mechanisms (such as an Investor-State Dispute Mechanism) built into its bilateral treaties with the United States. As Oleg Alyoshin and Vasylyna Odnorih write in their analysis of Ukraine’s regulatory framework: “The Ukrainian legislation applicable to international arbitration consists of the International Commercial Arbitration Act (ICA Act), the Code of Civil Procedure of Ukraine (CCPU), and the Commercial Procedural Code of Ukraine (CPCU).” In addition, the Law of Ukraine On Foreign Economic Activity (“LFEA”) allows parties to a commercial dispute to select a forum for its resolution... [Disputes] may be resolved by Ukrainian courts, the

International Commercial Arbitration Court, the Maritime Arbitration Commission of the Chamber of Commerce and Industry of Ukraine, or by other dispute resolution bodies chosen by the parties to the dispute.”<sup>32</sup> The arbitration climate between the United States and Ukraine, while having had some issues, is currently improving. Some key indicators can be found in the World Economic Forum’s Global Competitiveness Report for 2019. Out of 141 countries, Ukraine ranked 88<sup>th</sup> in terms of efficiency of legal framework in settling disputes and 105<sup>th</sup> in judicial independence. However, the report also notes that its scores in these areas has improved since the last report. As Ukrainian Minister of Justice Denys Maliuska stated in an American Chamber of Commerce Ukraine 2020 report,

*“We are on track to minimize investor risks and make Ukraine competitive for business. To achieve this goal, we will create an effective system of mediation, restorative justice, referees and arbitration courts that are competitive to public courts. That is the only way for business to have an alternative and for Ukraine to have a working and efficient system. Our goal is to make Ukraine a better place and increase its competitiveness. And we will continue to make progress towards this goal.”*<sup>33</sup>

About 50% of international arbitration disputes resolved in Ukraine are in the sphere of metallurgy, agribusiness and food production. The International Commercial Arbitration Court (ICAC) registered approximately 300 international cases per year.<sup>34</sup> While there are some structural challenges Ukraine is currently improving upon, Thomson Reuters summarizes the advantages that exist for foreign business within Ukraine’s arbitration nevertheless: “The costs of domestic litigation are not high in Ukraine, although the traditional benefits of arbitration remain attractive. Notably, the resolution of disputes is speedy in Ukraine. In the ICAC, up to 70% to 80% of cases are resolved within three months of constitution of the tribunal.”<sup>35</sup>

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<sup>32</sup> Id. 28

<sup>33</sup> American Chamber of Commerce Ukraine, “Ukraine Country Profile 2020”

<sup>34</sup> Svitlana Chepurna, Oleksandr Volkov and Kateryna Shokalo, “Arbitration Procedures and Practice in Ukraine: Overview”. Thomson Reuters Practical Law. <[https://uk.practicallaw.thomsonreuters.com/9-632-8191?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/9-632-8191?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1)>

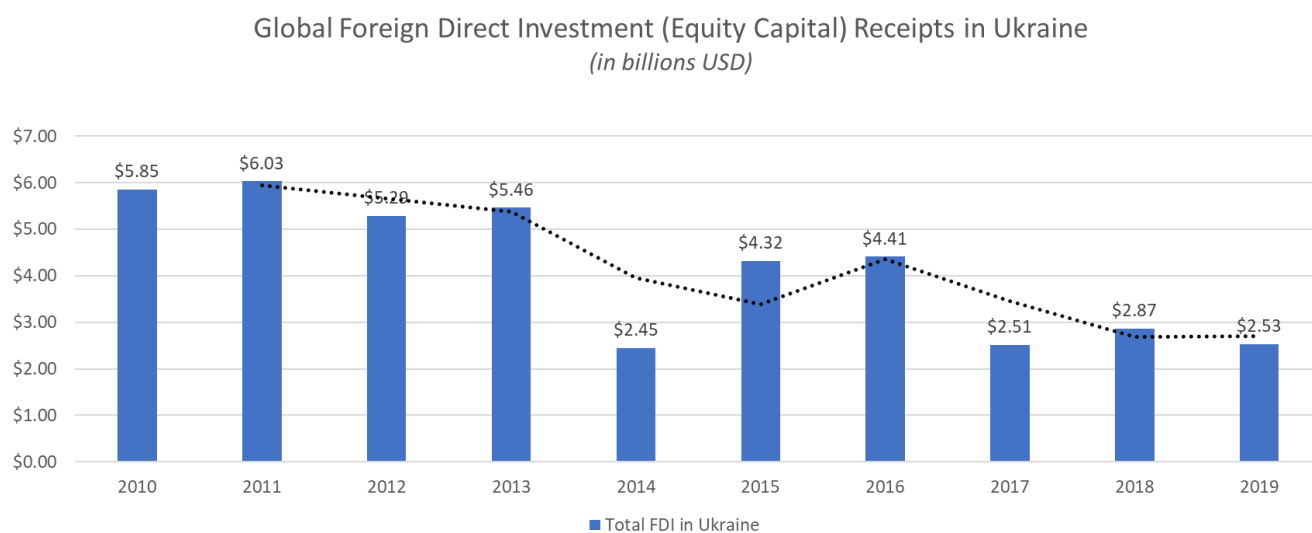
<sup>35</sup> Ibid.



### 1.1.4 (3) U.S. Investments in Ukraine

The overall inflow of investments into Ukraine has fluctuated quite a bit over the last several years, with an average of approximately \$4.17 billion from 2010 to 2020. Figure 12 shows the total amount of foreign direct investment into the country from that same period.<sup>36</sup> Total FDI in Ukraine had remained high up until 2014, when it began to decline in correspondence with the conflict in the East. However, it has been around \$2.5 billion since 2017. Interestingly, the National Bank of Ukraine reported a significant jump in the net incurrence of liabilities from the third quarter of 2019 to the fourth quarter (\$647 to \$1,245 million).<sup>37</sup> Figure 13 briefly shows these figures for 2019 and the first quarter of 2020 (although data of such recency is still preliminary).

**Figure 12**



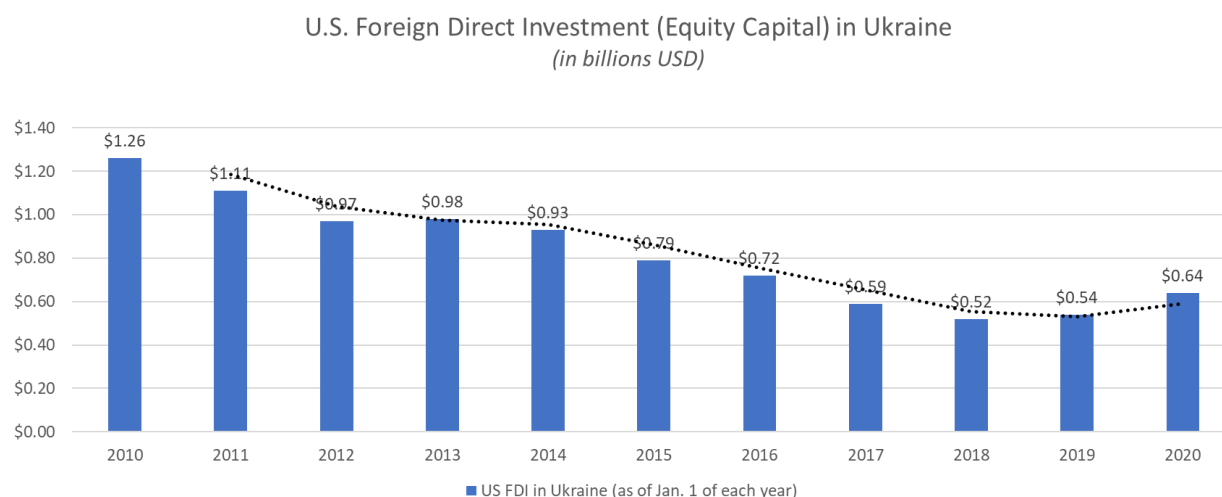
<sup>36</sup> SSSU

<sup>37</sup> “Balance of Payments of Ukraine”, 2020. National Bank of Ukraine.  
<[https://bank.gov.ua/files/ES/BOP\\_m\\_en.pdf](https://bank.gov.ua/files/ES/BOP_m_en.pdf)>

<b>Figure 13 – Ukraine: Net Incurrence of Liabilities</b> (in million USD)	
2019 Q1	\$452
2019 Q2	\$699
2019 Q3	\$647
2019 Q4	\$1245
2020 Q1	\$553

When looking at investments just from the United States for the same period, we see that the volume of foreign direct investment in the country had been declining since 2010, but similarly began an upward trajectory starting in 2018 (Figure 14). This uptick, while just now taking place, may be the signaling of the international market beginning to recognize the investment potential in Ukraine. While there have been many challenges for Ukraine to overcome, this is an indication of movement in a positive direction.

**Figure 14**



U.S. investments, when compared to the average of total investments in Ukraine, have composed approximately 2.09% of the total between 2010 and 2020.<sup>38</sup> Unfortunately, data is not readily available to determine where precisely U.S. investments into Ukraine have flowed in recent years. However, it will be instructive to give some indicators of where total investments

<sup>38</sup> SSSU

have flowed into the country both geographically and by sector. Figure 15 and Figure 16 provide data for the flow of FDI into Ukraine by geographic region (Oblast) and by economic sector respectively. These are rank ordered from highest to lowest volume of total inflow of investments. All figures were calculated as of October 1, 2019 by the State Statistics Service of Ukraine.<sup>39</sup>

<b>Figure 15 – Global Direct Investment Inflow into Ukraine By Geographic Region (2019)</b>		
<b>Region</b>	<b>Share of Total Inflow</b>	<b>Inflow Amount (USD Million)</b>
City of Kyiv	52.9%	\$18,374.6
Dnipropetrovsk	10.8%	\$3,765.2
Kyiv	4.7%	\$1,638.7
Donetsk	4.0%	\$1,398.5
Odesa	3.7%	\$1,271.1
Poltava	3.3%	\$1,159.9
Lviv	2.9%	\$1,005.9
Zaporizhzhya	2.7%	\$925.0
Ivano-Frankivsk	2.5%	\$858.7
Kharkiv	2.2%	\$755.0
Luhansk	1.3%	\$449.1
Chernihiv	1.3%	\$440.3
Zakarpattia	1.0%	\$348.6
Cherkasy	1.0%	\$358.9
Volyn	0.8%	\$288.7
Vinnitsya	0.7%	\$237.5
Zhytomyr	0.7%	\$243.6
Mykolayiv	0.7%	\$253.3
Kherson	0.7%	\$246.9
Sumy	0.6%	\$199.9
Khmelnyskiy	0.6%	\$196.4
Rivne	0.4%	\$134.8
Kirovohrad	0.2%	\$75.0
Chernivtsi	0.2%	\$52.8
Ternopil	0.1%	\$49.3

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<sup>39</sup> SSSU

As would be expected, the majority of total investment inflows into the country go to the city of Kyiv, Ukraine’s capital. However, a preliminary look at the data indicates investment potential in several regions of interest in the country. These possibilities will be explored more at length when analyzing the investment opportunities of particular sectors.

**O.R. 2c**

- **Pay attention to areas for which there is less publicity but have received increasing investment flows** – assessing investment inflows to regions such as Ivano-Frankivsk, Poltava Zaporizhzhya may offer important insights into future investment potentialities and development.

**Figure 16 – Global Direct Investment Inflow into Ukraine by Economic Sector (2019)**

<b>Economic Sector</b>	<b>Share</b>	<b>Inflow Amount (USD Million)</b>
Industry	32.9%	\$11,417.3
Manufacturing	24.7%	\$8,573.0
Wholesale and retail trade; repair of vehicles and motorcycles	16.2%	\$5,624.7
Financial and insurance activities	12.9%	\$4,469.7
Real estate activities	12.9%	\$4,484.2
Manufacturing of food products, beverages and tobacco products	8.3%	\$2,886.3
Professional, scientific and technical activities	6.5%	\$2,258.6
Information and communication	6.4%	\$2,222.2
Mining and quarrying	5.8%	\$2,013.7
Manufacture of basic metals and fabricated metal products, except machinery and equipment	5.2%	\$1,789.4
Manufacture of rubber and plastics products, and other non-metallic mineral products	3.3%	\$1,136.4
Administrative and support service activities	3.3%	\$1,129.4
Transportation and storage, postal and courier activities	3.0%	\$1,052.1
Construction	2.8%	\$980.2
Machine-building, except machinery and equipment	2.3%	\$796.2
Electricity, gas, steam and air-conditioning supply	2.2%	\$775.2
Manufacture of chemicals and chemicals products	1.9%	\$668.3
Manufacture of wood and paper products, and printing	1.7%	\$580.4

Agriculture, forestry and fishing	1.5%	\$536.7
Accommodation and food service activities	1.0%	\$350.8
Manufacture of coke, and refined petroleum products	0.8%	\$292.5
Manufacture of furniture and other manufacturing, and repair and installation of machinery and equipment	0.8%	\$275.5
Manufacture of textiles, apparel, leather and related products	0.3%	\$105.5
Arts, entertainment and recreation	0.3%	\$104.0
Water supply, sewerage, waste management and remediation	0.2%	\$55.4
Manufacture of pharmaceuticals, medical chemical and botanical products	0.1%	\$42.5
Education	0.1%	\$22.6
Human health and social work activities	0.1%	\$49.3

The above figures give an indication of where investment flows have occurred in Ukraine during the last year. Taken together, this can give insight into investment potential specific to U.S.-based investors.

Directly prior to the outbreak of COVID-19, the outlook of U.S. companies was quite positive. In October 2019, the American Chamber of Commerce in Ukraine conducted its *Ukraine Business Climate Survey*.<sup>40</sup> This survey detailed the results of a survey of 110 top managers of American corporations with operations in Ukraine. Of note, 64% indicated an increase in the investment environment of Ukraine since 2014 and over 80% noted revenue increases in 2018. Figure 17 consolidates some of the key findings of their survey, which can be found [here](#) or in the corresponding footnote.<sup>41</sup>

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<sup>40</sup> “Ukraine Business Climate Survey Results” (hereinafter ACC Survey). American Chamber of Commerce Ukraine <[https://chamber.ua/wp-content/uploads/2020/01/business\\_climate\\_en.pdf](https://chamber.ua/wp-content/uploads/2020/01/business_climate_en.pdf)>

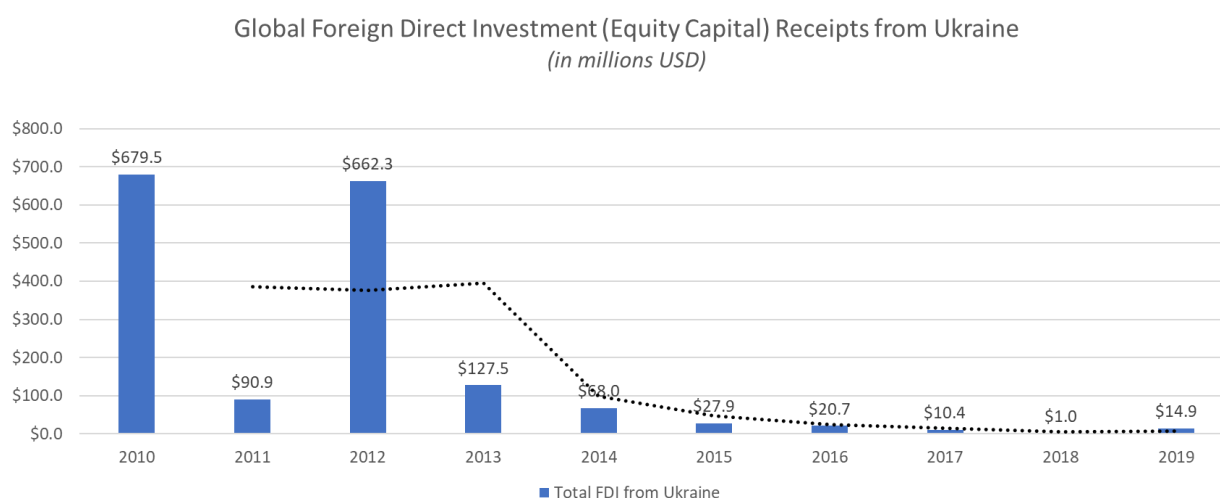
<sup>41</sup> Ibid.

<b>Figure 17 – Key Findings from 2019 Business Climate Survey (AmCham Ukraine)</b>	
Operations in Ukraine of over 20 years	47%
Plans to expand business in Ukraine in next 5 years	82%
Investments increases	65%
Overall business outlook	Cautiously optimistic – 62% Optimistic – 14%
Believe the Ukrainian authorities are committed to further opening Ukraine to foreign investment in next 5 years	84%

#### 1.1.4 (4) Ukrainian Investments in U.S.

Outflows of investment from Ukraine have fallen significantly since 2012. However, its FDI outflows have increased by nearly 15 times between 2018 and 2019. Figure 18 demonstrates the levels of outward investment from the country.<sup>42</sup>

**Figure 18**



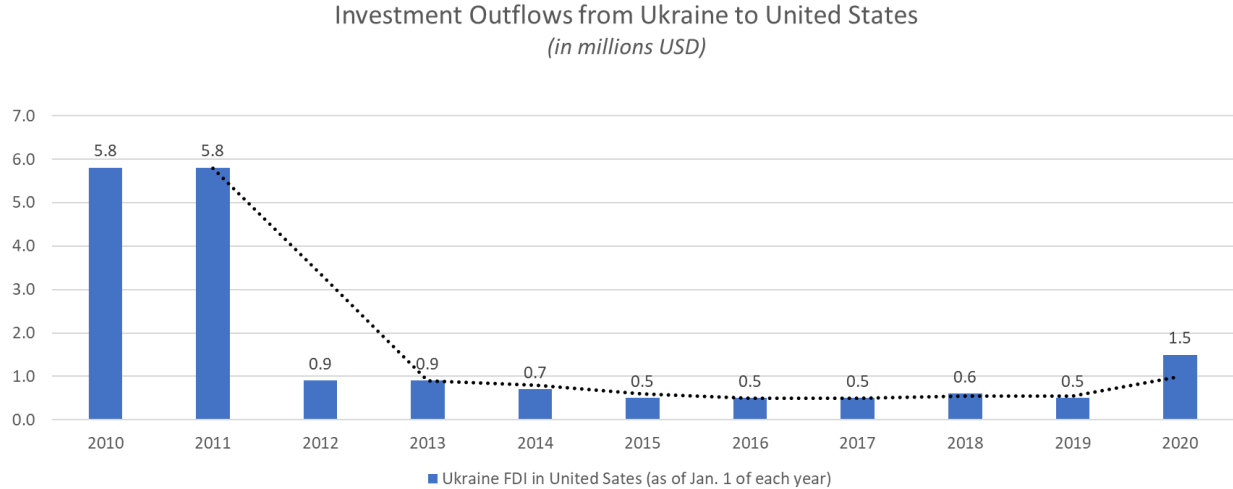
Of the outward investments from Ukraine, the vast majority of those outflows are in professional, scientific and technical activities.<sup>43</sup> Investments in this area averaged approximately

<sup>42</sup> SSSU

<sup>43</sup> SSSU

94% of Ukraine’s outward investments over the last 5 years (2015 – 2020).<sup>44</sup> In assessing Ukrainian investments to the United States specifically, data is not available to determine the precise sectors which Ukrainian entities invested into the U.S. economy. However, Figure 19 shows the overall trends in Ukrainian investment into the United States (including debt instruments). In 2010 and 2011, Ukrainian investment in the United States was five to ten times as much as the following eight years. Of particular note, however, is that Ukrainian FDI in the United States increased by 300% from the start of 2019 to the beginning of 2020.

**Figure 19**



**1.1.5 Ukrainian Interest in California Products, Services & Markets**

Despite being geographically distant, California is among the top ten U.S. states in terms of trade with Ukraine. Of total Ukraine-U.S. trade that passed through California’s seaports in 2019, 4.1% went through the Port of Long Beach, 3.1% through the Port of Oakland and 2.4% through the Port of Los Angeles. California’s airports also hosted about 10% of bilateral trade in

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<sup>44</sup> SSSU

2019, with Los Angeles at 5.9% and San Francisco at 4%.<sup>45</sup> Thus in 2019, approximately 19.5% of Ukraine-U.S. trade passed through California ports. In 2019 Ukraine was California's 51<sup>st</sup> largest foreign trading partner.<sup>46</sup> California accounted for about 10.65% of all Ukraine-U.S. trade in 2019. During that same year California imported \$58.8 million worth of Ukrainian goods, including food manufactures, primary metal manufactures, agricultural products and electrical equipment. California exported \$250.8 million worth of goods in 2019 with the top export categories being used or second-hand merchandise (51.7%), agricultural products (26.2%), transportation equipment (8.3%) and computer and electronic products (3.7%).<sup>47</sup> For the first quarter of 2020, California accounted for about 13.2% of total Ukraine-U.S. trade in goods. While trade in services data is not available at a level disaggregated by state, it is clear that Ukraine and California have a number of sectors with considerable overlap. Many California technology companies already take advantage of Ukraine's booming IT service sector and areas such as agriculture, aerospace and energy are also particularly promising.

**O.R. 1c**

- **Further Publicize Ukraine's rank as a trading partner with California** – work with local and city governments in California to inform California business communities about overlapping interests and the impressive volume of CA-Ukraine trade.

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<sup>45</sup> "Ukraine", US Trade Numbers. <<https://www.ustradenumbers.com/country/ukraine/>>

<sup>46</sup> "Trading Partner Portal: Ukraine", California Chamber of Commerce <<https://advocacy.calchamber.com/international/portals/ukraine/>>

<sup>47</sup> Ibid.



## 1.2 Market Analysis and Incentives for U.S. to Enter Ukrainian Markets

According to Baker McKenzie’s 2019 report, Ukraine enjoys a number of inherent advantages that makes it an attractive destination for investors. These include an “opportune geographical location, a mild climate, fertile land, a rich natural resource base, a highly educated labor force, a well-developed transport infrastructure and a long-established tradition of scientific research and development.”<sup>48</sup> Furthermore, Ukraine has steadily been climbing up the ranks in terms of the World Bank’s “Ease of Doing Business” ratings. Figure 20 summarizes the scores and the findings on Ukraine’s economic profile from the *Doing Business 2020* report of the World Bank Group.<sup>49</sup>

<b>Figure 20 – Summary of Findings from World Bank Group Doing Business Report 2020</b>	
<b>Doing Business Topic</b>	<b>Scores (0-100)</b>
Starting a Business	91.1
Dealing Construction Permits	81.1
Getting Electricity	62.5
Registering Property	71.3
Getting Credit	75.0
Protecting Minority Investors	68.0
Paying Taxes	78.1
Trading Across Borders	80.1
Enforcing Contracts	63.6
Resolving Insolvency	31.4
<b>Key Changes Relative to 2019 Report</b>	
<p><b>Dealing with Construction Permits:</b> Ukraine streamlined dealing with construction permits process by eliminating the requirement to hire an external supervisor and introducing an online notification system. Ukraine also made obtaining a construction permit less costly by reducing the contribution fee to the Kyiv City Council.</p>	
<p><b>Getting Electricity:</b> Ukraine made getting electricity easier by streamlining the issuance of technical conditions and by implementing a geographic information system. Ukraine also improved the reliability of power supply by introducing an outage compensation mechanism.</p>	

<sup>48</sup> Id. 28

<sup>49</sup> World Bank Group, “Doing Business Report: Ukraine Economic Profile”

<b>Registering Property:</b> Ukraine made registering property easier by increasing the transparency of the land administration system.
<b>Getting Credit:</b> Ukraine improved access to credit information by establishing a new public credit registry in the National Bank of Ukraine.
<b>Protecting Minority Investors:</b> Ukraine strengthened minority investor protections by requiring greater disclosure of transactions with interested parties.
<b>Trading Across Borders:</b> Ukraine reduced the time to import by simplifying conformity certification requirements for auto parts.

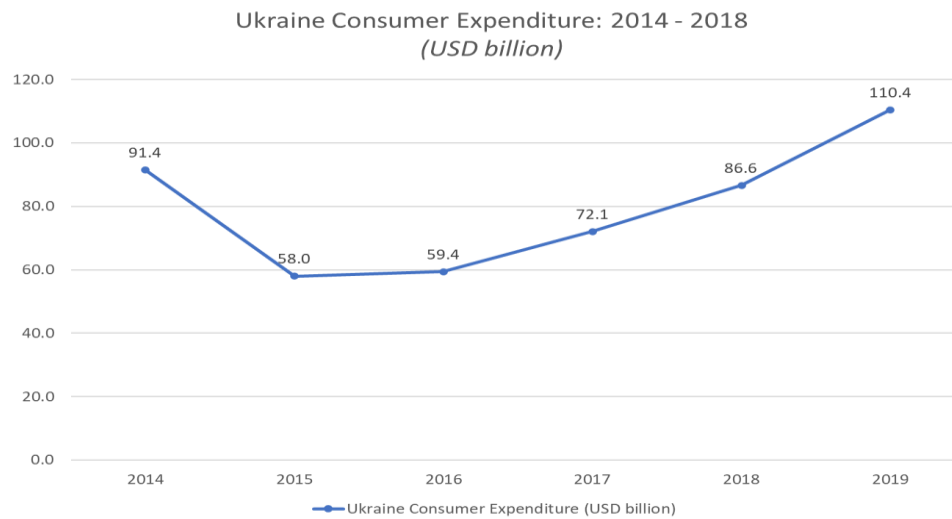
There are a wide variety of reasons for the U.S. to enter Ukrainian markets. In the abovementioned survey from the American Chamber of Commerce in Ukraine, American businesses in Ukraine noted that talent, low labor cost, access to the European market, low production costs and growth rates were the most attractive characteristics of the Ukrainian market.<sup>50</sup> In terms of selling goods into the country, Ukraine boasts a large consumer market of approximately 44.6 million people, many of whom would be eager to purchase goods and services from the United States. Figure 21 shows the increasing rates of both the average monthly total expenditure per Ukrainian household as well as the share that is spent on manufactured goods and services (listed in UAH, the Ukrainian hryvnia). Overall trends in consumer expenditures are represented in Figure 22 (in USD)<sup>51</sup>.

<b>Figure 21 – Structure of Total Ukrainian Household Expenditure: 2014 – 2018 (UAH)</b>		
	<i>Average monthly total expenditure per one household (UAH)</i>	<i>Share Spent on Manufactured Goods and Services</i>
2014	4048.9	36.3%
2015	4952	36.5%
2016	5720.4	40.5%
2017	7139.4	41.9%
2018	8308.6	40.9%

<sup>50</sup> ACC Survey

<sup>51</sup> “Ukraine Country Factfile”, Euromonitor International. <<https://www.euromonitor.com/ukraine/country-factfile>>

**Figure 22**



These rising trends in the Ukrainian consumer market are not the only aspects that are of benefit to U.S. companies looking to enter the Ukrainian market. The Ukrainian consulting firm, Business Perspectives, noted that Ukraine’s investment attractiveness has been rising particularly since 2017. As they explain, “top managers of Association member companies mark the liberalization of currency legislation, the relative stability of the national currency and the level of inflation, the implementation of effective methods of countering raider attacks, economic recovery and the development of electronic services [and] continuous dialogue of power with business.”<sup>52</sup>

**O.R. 1d**

- **Utilize Survey Results to Inform Government Policy and Business Operations Decisions** – surveys from organizations like the American Business Chamber of Commerce Ukraine or other consulting firms that poll U.S. business already in Ukraine serve as a valuable roadmap for future decision-making.

<sup>52</sup> Ivan Bogatyrev et. al, “Problems and Perspectives for Attracting Investments in Economy of Ukraine”. Investment Management and Financial Innovations. June 6, 2019.

[https://businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/12061/IMFI\\_2019\\_02\\_Bogatyrev.pdf](https://businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/12061/IMFI_2019_02_Bogatyrev.pdf)

### *1.2.1 General Incentives for R&D and Manufacturing Localization in Ukraine*

As a matter of fact, Ukraine has been identified as a beneficial location for the establishment of research and development facilities by multinational enterprises since the first decade of the 2000's. Many of the top multinational corporations have already established a business presence in Ukraine, including Boeing, Ericsson, Siemens and Oracle. In recent months, Ukrainian business headlines noted that Google had opened its third R&D facility in Kyiv in January 2020.<sup>53</sup> Furthermore, Ukraine has made monumental leaps in its World Bank "Doing Business" ranking over the last several years, moving up 88 spots since 2012. Ukraine currently ranks at 64 out of the total 183 positions.<sup>54</sup>

As Daria Zvirgzde, Daniel Schiller and Javier Revilla Diez noted in their 2013 paper *Location Choices of Multinational Companies in Ukraine*, "[f]oreign investors assess overseas locations within the paradigm of opportunities and obstacles. They are mainly interested to invest into the locations which offer advantages in terms of proximities, market growth, lower costs, strategic resources, and favourable institutional conditions in order to maximize their return on investment."<sup>55</sup> All of these characteristics are present in Ukraine's profile for potential business. The results of their survey identifying the most critical characteristics for investment and business localization choices are important for assessing doing business in Ukraine. Their study noted that market demand, lower costs and human capital/knowledge are of high importance to foreign investors (ranking as "very important" at 60%, 54% and 37% respectively).<sup>56</sup>

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<sup>53</sup> Trending Topics, "Google Launches Its Third CEE Research and Development Center In Ukraine". January 16, 2020. <<https://www.trendingtopics.eu/google-launches-its-third-cee-research-and-development-center-in-ukraine/>>

<sup>54</sup> Ukraine Crisis Media Center, "Ukraine moves up seven spots in the Doing Business 2020 ranking growing attractive for investment". October 25, 2019 <<https://uacrisis.org/en/73773-doing-business-2020>>

<sup>55</sup> Daria Zvirgzde, Daniel Schiller, Javier Revilla Diez, "Location Choices of Multinational Companies in Ukraine". European Regional Science Association (ERSA). August 2013 <[https://www.econstor.eu/bitstream/10419/123877/1/ERSA2013\\_00219.pdf](https://www.econstor.eu/bitstream/10419/123877/1/ERSA2013_00219.pdf)>

<sup>56</sup> Ibid.

Infrastructure was also noted as a substantial element in investment decision making (24%).

Using these four categories as guidance, this section will briefly outline the progress Ukraine has made on these fronts.

### ***Market Demand***

The trends in the domestic market demand (as outlined in the previous section) are a positive sign for tentative investors. Not only is total household and consumer expenditure growing within the country, but Ukraine's geographic position makes it a strategically positioned country for accessing markets in both Europe and Central Asia. Paul Nieland wrote for the Atlantic Council in an article titled, *Why I'm Still Doing Business in Ukraine*, "The biggest difference is that Ukraine sits on Europe's doorstep, where a market of 740 million relatively affluent consumers awaits goods from their neighbor with a hard won free trade agreement."<sup>57</sup>

### ***Lower Costs***

One of the main draws for R&D and manufacturing localization in Ukraine are low startup and associated costs. As Vadim Rogovskiy, Clickky founder and CEO, noted in a Forbes Technology Council publication, "Perhaps the biggest advantage of running R&D in Ukraine is the lower cost."<sup>58</sup> Over the past five years these costs have been steadily declining. Figure 23 below summarizes the changes in the cost of doing business in Ukraine taken from the World Bank Group. As can be seen below, many of these cost-related indices have improved significantly in the last five years.

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<sup>57</sup> Paul Niland, "Why I'm Still Doing Business in Ukraine". Atlantic Council. May 29, 2018  
<<https://www.atlanticcouncil.org/blogs/ukrainealert/why-i-m-still-doing-business-in-ukraine/>>

<sup>58</sup> Vadim Rogovsky, "Why Building R&D in Ukraine is a Great Idea". Forbes. September 7, 2017  
<<https://www.forbes.com/sites/forbestechcouncil/2017/09/07/why-building-rd-in-ukraine-is-a-great-idea/#320f3c587ea0>>

**Figure 23 – World Bank “Doing Business”: Cost-Related Indicators for Ukraine (2015-2020 Trends)**

	2015	2016	2017	2018	2019	2020
Starting a Business -Cost – Men (% of income per capita)	1.8%	1.1%	0.9%	0.8%	0.6%	0.5%
Starting a Business -Cost – Women (% of income per capita)	1.8%	1.1%	0.9%	0.8%	0.6%	0.5%
Dealing with Construction Permits – Cost (% of Warehouse)	13.8%	13.5%	13%	4.8%	6.4%	4.4%
Getting Electricity – Cost (% of income per capita)	882.7%	795.3%	637.6%	525.2%	402.5%	353.2%
Registering Property – Cost (% of property value)	2%	2%	1.9%	1.8%	1.8%	1.7%
Paying Taxes – Profit Tax (% of Profit)	9.5%	9%	8.7%	11.9%	11%	10.2%
Paying Taxes – Labor Tax and Contributions (% of profit)	43.1%	43.1%	43.1%	24.8%	29.6%	33.8%
Trading Across Borders – Cost to Export: Documentary (USD)	\$192	\$192	\$192	\$192	\$192	\$192
Trading Across Borders – Cost to Import: Documentary (USD)	\$212	\$212	\$212	\$212	\$162	\$162
Trading Across Borders – Cost to Export: Border Compliance (USD)	\$75	\$75	\$75	\$75	\$75	\$75
Trading Across Borders – Cost to Import: Border Compliance	\$100	\$100	\$100	\$100	\$100	\$100

### *Human Capital/Knowledge*

One of Ukraine’s primary advantages is its highly skilled workforce. Ukraine boasts a literacy rate of 99.4% and over 70% of the population have a secondary degree or higher education.<sup>59</sup> As Ukraine Invest writes, “One of the better legacies that the Soviet Union left behind was the emphasis on the importance of education. In Ukraine, this desire for education has continued and maintains a strong emphasis on areas that are currently driving global economic growth.”<sup>60</sup> They also note that many U.S. and European companies have found it easier to work with Ukrainian service providers than the traditional outsourcing countries given Ukraine’s cultural alignment with Europe and the workforce’s strong work ethic.<sup>61</sup> In 2019

<sup>59</sup> Ukraine Invest, “Talented Human Capital” <<https://ukraineinvest.com/whyukraine/educated-workforce/>>

<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

Ukraine produced 333,600 university graduates and 25,245 postgraduates, many of which obtained highly technical degrees.<sup>62</sup> Figure 24 shows the number of individuals in the Ukrainian workforce by economic sector as of January 2020.<sup>63</sup>

<b>Figure 24 – Ukraine Workforce by Sector (January 2020)</b>		
	<b>Thsd. People</b>	<b>% of Previous Month</b>
<b>Total</b>	<b>7,476.0</b>	<b>102.5</b>
Agriculture, forestry and fishing	376.5	96.2
of which agriculture	324.5	96.2
Manufacturing	1847.7	100.8
Construction	195.7	105.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	812.8	106.8
Transportation and warehousing, postal and courier activities	637.1	103.3
Land transport and transport via pipelines	254.1	107.1
Water transport	2.5	88.2
Air transport	16.6	104.0
Warehousing and support activities for transportation	296.7	101.2
Postal and courier activities	67.1	99.5
Accommodation and food service activities	78.9	106.3
Information and communication	113.2	103.7
Financial and insurance activities	172.1	102.9
Real estate activities	76.3	105.4
Professional, scientific and technical activities	207.0	106.9
of which scientific research and development	78.6	101.4
Administrative and support service activities	175.0	101.3
Public administration and defense; compulsory social security	413.7	109.4
Education	1340.5	101.1

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<sup>62</sup> SSSU

<sup>63</sup> SSSU

Not only is the population highly educated, but the cost of employment is also much cheaper relative to other countries of the world. Vadim Rogovsky points out regarding the IT sector, “The median salary of a senior Java developer in Ukraine is just \$40,083 per year – slightly higher than in Asia, but lower than in neighboring Central European countries. Considering the fact that a developer of the similar expertise would cost on average \$99,284 per year in the U.S., the benefit is obvious.” (figures from 2017).<sup>64</sup> To demonstrate, Figure 25 gives the average yearly wages for regular Ukrainian employees by sector. Hence, the human capital quality to cost ratio makes R&D localization in Ukraine an attractive prospect.

<b>Figure 25 – Average Yearly Wages of Regular Employees By Sector (2019)</b>		
<b>Sector</b>	<b>Average Yearly Wage (UAH)</b>	<b>USD Equivalent (May 2020 Conversion Rate)</b>
All Sectors	125,962	\$4,661
Agriculture	104,855	\$3,880
Manufacturing	141,459	\$5,234
Information & Communication	210,511	\$7,789
Professional, Scientific & Technical Activities	174,603	\$6,460
Scientific Research & Development	139,787	\$5,172

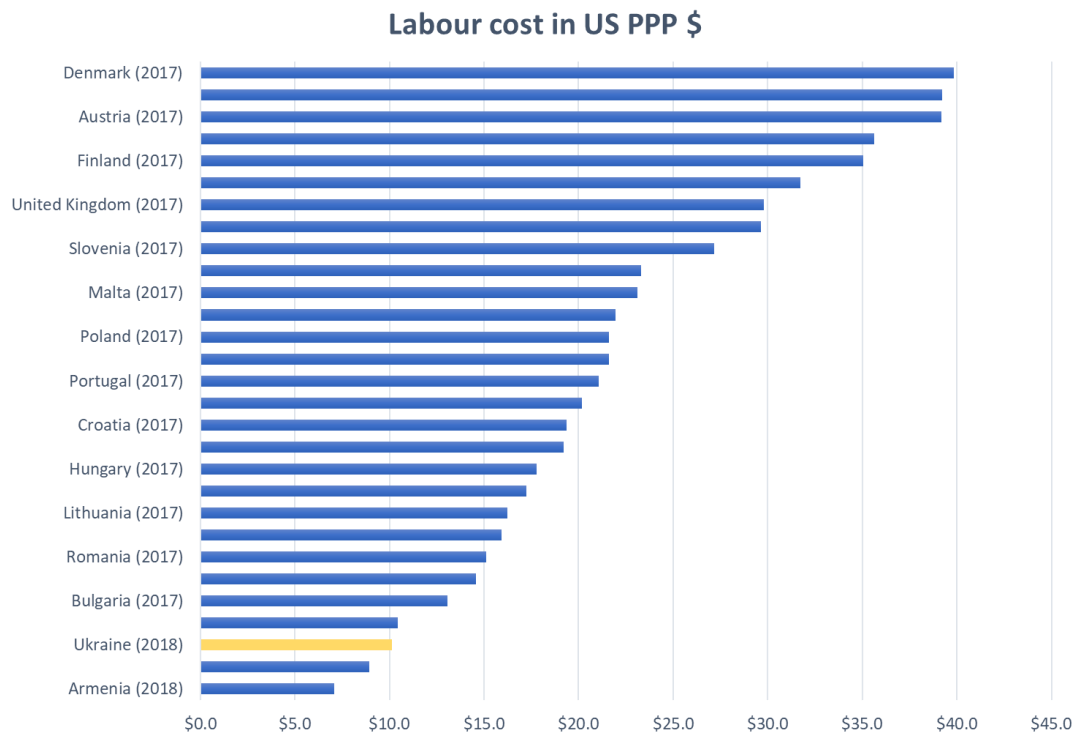
In fact, as of the most recent data from the International Labor Organization, Ukraine has among the lowest cost of labor in all of Europe (approximately \$10.2 per hour in terms of USD purchasing power parity).<sup>65</sup> See Figure 26 below.

<sup>64</sup> Id. 58

<sup>65</sup> International Labour Organization, “Statistics on Labour Costs” <<https://ilostat.ilo.org/topics/labour-costs/>>



**Figure 26**



To understand the geographic distribution of human capital within the country, Figure 27 gives the latest data as to where highly educated individuals are located within Ukraine.<sup>66</sup>

<b>Figure 27 – R&amp;D Personnel in Ukraine by Region</b>						
	Number of R&D personnel	Including				
		have a scientific degree		researchers	technology	support staff
		doctor of science	PhD / candidate of sciences			
<b>Ukraine</b>	<b>88,128</b>	<b>7,043</b>	<b>18,806</b>	<b>57,630</b>	<b>8,553</b>	<b>21,945</b>
City of Kyiv	40,113	3,758	9,200	27,073	2,658	10,382
Kharkiv	14,226	1,008	2,915	9,528	1,493	3,205
Dnipropetrovsk	8,658	383	1,018	5,216	1,887	1,555
Lviv	4,869	585	1,771	3,862	244	763
Zaporizhzhya	3,913	78	215	1,295	404	2,214
Odesa	2,548	265	631	1,818	227	503
Mikolayiv	2,116	93	286	1,073	143	900
Kyiv	1,798	85	308	1,098	233	467
Sumy	1,638	86	289	888	396	354
Poltava	1,016	79	360	763	99	154

<sup>66</sup> SSSU

Chernivtsi	731	94	251	569	48	114
Kherson	699	51	180	472	86	141
Cherkasy	676	50	129	449	124	103
Chernihiv	665	8	89	265	46	354
Vinnytsya	625	65	214	447	93	85
Ivano-Frankivsk	600	59	132	492	33	75
Zakarpattia	526	45	117	314	19	193
Kirovohrad	467	11	67	353	41	73
Zhytomyr	367	34	118	244	61	62
Khmelnyskiy	348	32	115	295	22	31
Ternopil	345	55	110	293	26	26
Rivne	340	46	102	232	46	62
Volyn	317	36	116	265	37	15
Luhansk	301	12	33	168	45	88
Donetsk	226	25	40	158	42	26

**O.R. 2d**

- **Use Data-driven research to optimize Ukraine’s promising low-cost/high-quality workforce** - data on human capital trends (such as those provided above) can help U.S. companies assessing investment & offshoring opportunities abroad make the best decisions. It can also provide insight into otherwise unrecognized opportunity areas and gain a foothold in a currently undervalued labor market.

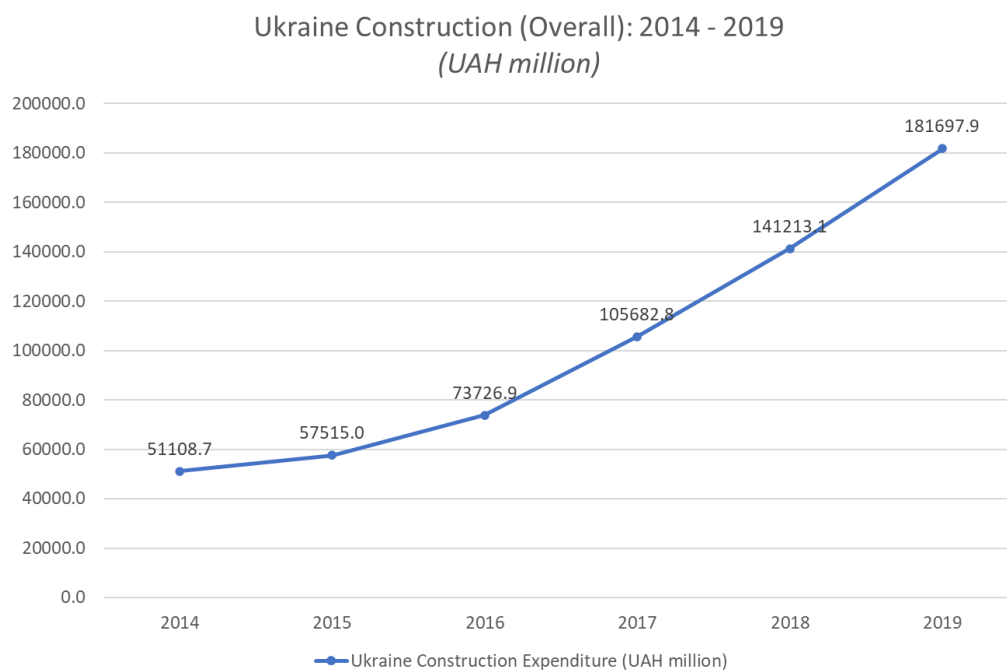
**Infrastructure**

The infrastructure of Ukraine is also in the process of undergoing significant improvements. The Ukraine Business Journal describes the country as being “a vital cargo corridor and important frontier for international business.”<sup>67</sup> Given Ukraine’s geographic position, this is undoubtedly the case. Ukraine is positioning itself to be an even greater trade hub on the Eurasian continent, linking Western Europe with the rest of Eastern Europe, Asia and the Middle East. The Ukraine Business Journal points to significant developments on various infrastructural fronts, including roads, rail, airports and seaports. For instance, the Ukrainian government implemented a road development program between 2018 and 2022, for which about

<sup>67</sup> Ukraine Business Journal – Issue 3, “Ukraine’s Infrastructure Paves Way to Europe”

\$11 billion will be spent on repair and construction. As Slavomir Novak, head of the state highways agency of Ukraine, noted “over the next 5 years, the length of repaired roads will be more than 10,000 km.”<sup>68</sup> Similar grand undertakings are in place for Ukraine’s railway system, a vital piece of its infrastructure. In terms of seaports, the Ukrainian Business Journal writes, “the 13 sea ports of Ukraine handle about 132 million tons of cargo annually at the moment, and this is set to increase after upgrades and improvements are completed... according to the Ukrainian Sea Ports Authority (USPA), that volume is set to increase by 600,000 [tons of cargo] this year [2018].<sup>69</sup> The data on construction activities in the country bear this out. Figures 28 and 29 show the rise in overall construction activity in the country and construction by type of activity from 2014 to 2019 respectively.

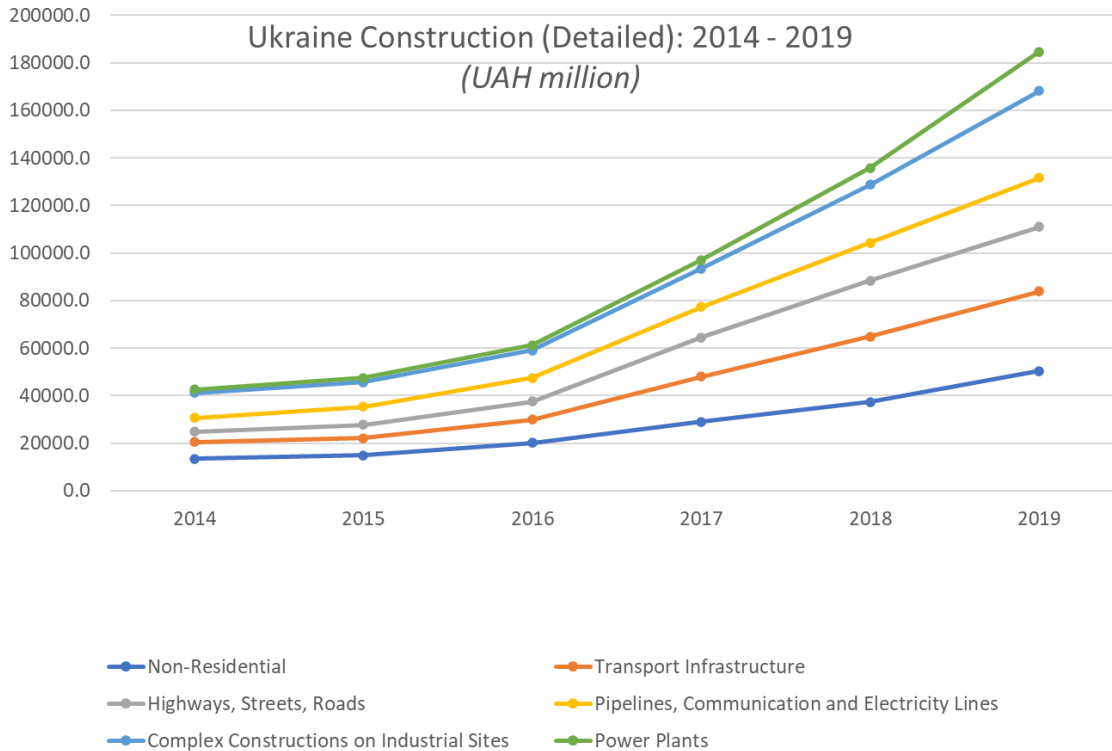
**Figure 28**



<sup>68</sup> Ibid.

<sup>69</sup> Ibid.

**Figure 29**



### ***1.2.2 (1) Specific Incentives for R&D Localization and Manufacturing in Ukraine – IT Sector***

The information technology (IT) and telecommunications sector has often been pointed to as the most lucrative and promising area of the Ukrainian economy in terms of foreign investment. In fact, John Sung Kim, CEO of Jetbridge and prominent investor in Ukraine, calls Ukraine “the best kept secret in California’s startup scene.”<sup>70</sup> In terms of IT research and development specifically, Ukraine boasts the largest engineering force in Central and Eastern Europe: approximately 16,000 IT graduates each year and 33,500 in scientific fields.<sup>71</sup> It is also the top European country in terms of the number of engineering graduates, with more than 130,000 new engineers each year.<sup>72</sup> According to Daxx, an Amsterdam-based IT consultant and

<sup>70</sup> John Sung Kim, “Ukraine Is the Best Kept Secret in California’s Startup Scene”. Forbes. October 16, 2018. <<https://www.forbes.com/sites/forbestechcouncil/2018/10/16/ukraine-is-the-best-kept-secret-in-californias-startup-scene/#169929ed7ebc>>

<sup>71</sup> Id.59

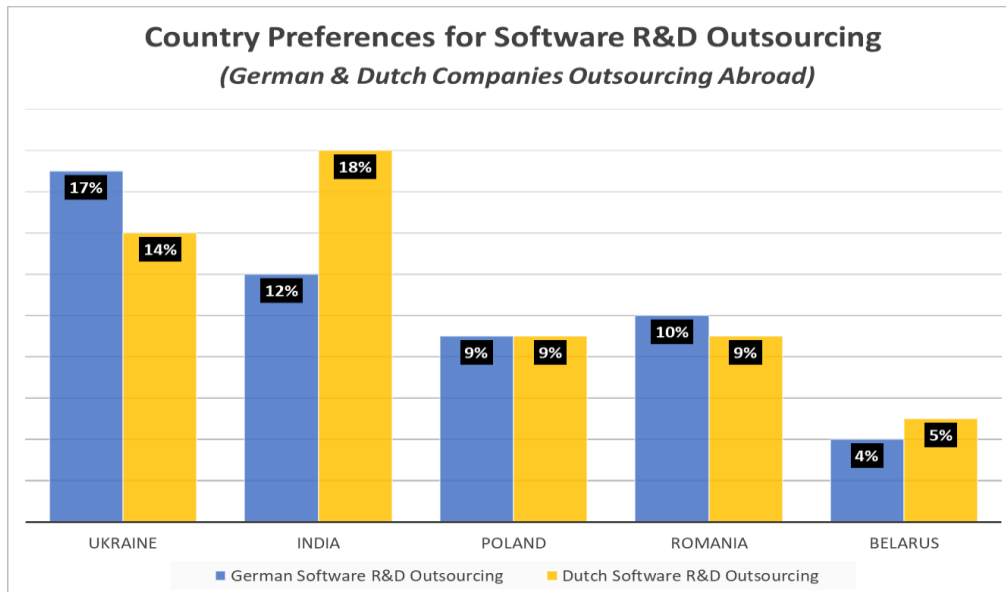
<sup>72</sup> Ibid.

service provider, “thanks to the vibrant tech environment, Ukraine is becoming an increasingly popular software development destination for foreign businesses — 100 out of Fortune 500 companies and 20% of global leaders have their remote development teams in Ukraine.”<sup>73</sup> In a survey of German and Dutch businesses conducted by Daxx, Ukraine held the number one and two spots for software development outsourcing. Figure 30 shows the percentage of German and Dutch IT firms that outsource software development to different countries. Ukraine holds the top spot with regard to German preferences for such outsourcing and it is the second most preferential country for Dutch companies in 2020.<sup>74</sup>

**O.R. 2e**

- **Track preferences of other countries to understand where opportunity may lie** – seeing where companies from other jurisdictions are outsourcing and determining their reasons for doing that can indicate potential growth. Many countries in Europe are finding Ukraine a coveted location for its IT services.

**Figure 30**



<sup>73</sup> Daxx, “How Many Ukrainian Software Developers Are There in 2020?”. May 22, 2020 <<https://www.daxx.com/blog/outsourcing-ukraine/how-many-developers-in-ukraine>>

<sup>74</sup> Ibid.

Furthermore, there is already a strong presence of R&D centers in Ukraine from some of the top information technology companies. Companies such as Google, Wargaming.Net, Samsung, Siemens and Oracle have an R&D presence in the country. In fact, there are more than 100 leading global companies that have subsidiaries in Ukraine. There are also rising stars, such as those tech firms identified by the International Association of Outsourcing Professionals (IAOP) as “The Global Outsourcing 100”, which all have R&D centers in Ukraine. Figure 31 is a reference table for American companies seeking to identifying best practices for R&D localization by foreign companies. These companies were ranked by the IAOP as the top IT service providers in the world in 2018.<sup>75</sup>

<b>Figure 31 – IAOP Top 2018 IT Service Providers with R&amp;D Localization in Ukraine</b>		
<b>Company</b>	<b>Headquarters</b>	<b>Approximate # of Engineers in Ukraine</b>
EPAM	USA	4,000
Luxoft	Switzerland	4,000
Ciklum	Denmark	2,000
TEAM International Services	USA	200
Softjourn	USA	100
AMC Bridge	USA	250
Artezio	Russia	Unknown

While many have pointed to a decline in R&D spending in Ukraine in recent years as a troubling development (down from 0.55% in 2015 to 0.43% in 2019), this may be an important opportunity for foreign investors seeking to take advantage of Ukraine’s great talent pools. This creates a space for foreign investors to fill that gap, make use of Ukrainian human capital and support this essential part of the Ukrainian economy. By localizing R&D enterprises in Ukraine

<sup>75</sup> Jane Kuhuk, “18 Companies Operating in Ukraine Ranked Among World’s Top IT Service Providers”. Ukraine Digital News. February 21, 2018. <<https://www.uadn.net/2018/02/21/18-companies-operating-in-ukraine-ranked-among-worlds-top-it-service-providers/>>

and keeping the top talent employed in the country, all parties involved in these high value-added sectors would benefit. To get a sense of current trends in R&D expenditure across the country, see Figure 32.

**Figure 32 – R&D Expenditure Trends within Ukraine by Type (2015 – 2019)**

	Total R&D Expenditure (million UAH)	Fundamental Research		Applied Research		Scientific and Technical Development		Share of research and development expenditures in GDP, %
		Million UAH	Percentage of the total sum of R&D expenditure	Million UAH	Percentage of the total sum of R&D expenditure	Million UAH	Percentage of the total sum of R&D expenditure	
2015	11003.6	2460.2	22.4%	1960.6	17.8%	6582.8	59.8%	0.55%
2016	11530.7	2225.7	19.3%	2561.2	22.2%	6743.8	58.5%	0.48%
2017	13379.3	2924.5	21.9%	3163.2	23.6%	7291.6	54.5%	0.45%
2018	16773.7	3756.5	22.4%	3568.3	21.3%	9448.9	56.3%	0.47%
2019	17254.6	3740.4	21.7%	3635.7	21.1%	9878.5	57.2%	0.43%

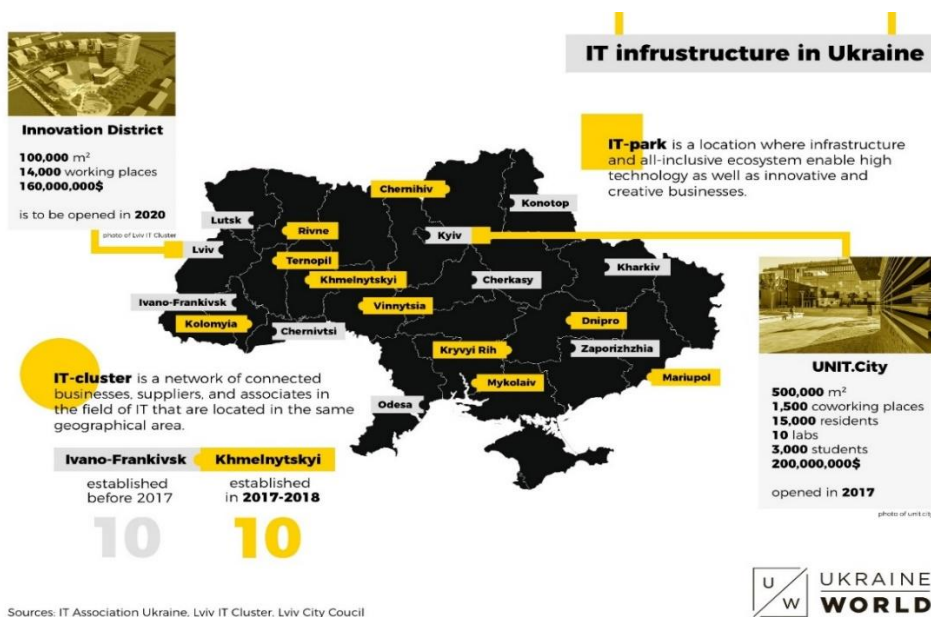
One of Ukraine’s greatest emerging strengths is its leveraging of building on external economies of scale by creating “IT clusters”. Similar to the model of Silicon Valley in California, these IT clusters operate as geographically close networks of businesses that work together, share expertise and continue to build up Ukraine’s booming IT industry. Iryna Skavronska of Ternopil National Economic University describes the legislative push to continually develop Ukraine’s creative industries:

*In 2016, within the Ministry of Culture of Ukraine a new subdivision named the Department of Strategic Planning and Development was established that includes the creative industries development sector. In addition, The Creative Goods Export Strategy of Ukraine 2017-2021 and The Ukrainian Cultural Foundation Strategy 2019-2021 are currently implemented for the purpose of promoting the creation and consolidation of the ecosystem of culture and creativity in Ukraine.<sup>76</sup>*

<sup>76</sup> Iryna Skavronska, “Creative Clusters and the Position of Ukraine in the Market of Creative Products”. Ternopil National Economic University. October 28, 2019. <[https://unctad.org/meetings/en/Contribution/cep2019-22-10-contribution\\_en\\_Ukraine.pdf](https://unctad.org/meetings/en/Contribution/cep2019-22-10-contribution_en_Ukraine.pdf)>

Vitalii Ribak at the Atlantic Council notes that, “Ukraine's tech ecosystem has been developing mostly through IT-clusters—small networks of connected businesses, suppliers, and associates— as well as through IT parks, locations where infrastructure and cooperation enable high technology and innovative businesses.”<sup>77</sup> IT clusters exist in over 11 cities including Kyiv, Lviv, Lutsk, Ternopil, Inano-Frankivsk, Vinnytsia, Odessa, Mykolaiv and Cherkasy.<sup>78</sup> These IT clusters will continue to be a driving force in the high-tech industry of the country for the forthcoming years and will be key areas for U.S. consumers and investors to monitor. Figure 33 is a graphic provided by Ukrainian news outlet, Ukraine World, to give an overview of the IT cluster dynamic as of 2018 <sup>79</sup> and Figure 34 serves as a resource for information on the most promising IT clusters in Ukraine currently under development.

**Figure 33**



<sup>77</sup> Vitalii Rybak, Ukraine’s an IT Powerhouse. So Why Isn’t It Making More?” Atlantic Council. December 17, 2018. <<https://www.atlanticcouncil.org/blogs/ukrainealert/ukraine-s-an-it-powerhouse-so-why-is-it-stuck-mostly-outsourcing/>>

<sup>78</sup> Id. 76

<sup>79</sup> Id. 77



<b>Figure 34 – Highlighted IT Clusters in Ukraine<sup>80</sup></b>	
<b>Cluster</b>	<b>Description – N-iX, “IT Facilities and Infrastructure in Ukraine”</b>
Innovation District IT Park (Lviv)	<i>“IT park is stretching forth 10 hectares and designed to host up to 14,000 people. It will consist of 6 class A office buildings, with a total area of around 164,000 m2, three business centers, a 200 keys hotel, and a designated multi-functional area for leisure and social needs, according to IT Cluster. The budget amounts to \$160M.”</i>
IT Village (Lviv)	<i>“As reported by Lviv IT Cluster, the complex of 17 hectares in total will consist of 133 separate houses. The project is due in 2022.”</i>
UNIT. City (Kyiv)	<i>“The park stretches on the territory of 25 hectares. For now, it houses 108 resident companies with 4 R&amp;D laboratories, 3K students of UNIT Factory IT-School, and this is just the beginning. The aim until 2025 is to provide 15K tech jobs, 300+ companies, and R&amp;D laboratories.”</i>
Lviv Tech.City (Lviv)	<i>“This park will occupy the territory of 1,77 hectares, and the total area of the office will be more than 60,000 m2”</i>

The Center for Economic Strategy provide a number of policy recommendations to further enhance the efficacy of these clusters for the Ukrainian economy:

- Providing clusters with autonomy for universities in decision-making;
- Developing transparent mechanisms for the distribution of public funding and attracting private investment;
- Providing independent advisory support financed by the Ministry of Economic Development and the Ministry of Education and Science to all the stakeholders: local government, universities, business, industrial parks, foreign investors, etc;
- Only supporting clusters that are bottom-up initiatives of firms, universities and local government, and who have transparent, horizontal governance processes.<sup>81</sup>

#### **O.R. 1e**

- **Ukrainian private sector should work with the government to best optimize IT clusters** – by further leveraging external economies of scale in the IT sector, continued productivity rise is inevitable and can act as a rising tide that will lift all boats in the Ukrainian economy.

<sup>80</sup> Khrystyna Zabor, “IT Facilities and Infrastructure in Ukraine”. N-iX. October 22, 2019 <<https://www.n-ix.com/it-infrastructure-facilities-ukraine/>>

<sup>81</sup> Hlib Vyshlinsky et. al, “How Can Ukrainian SME Grow into National and Global Champions?”. Centre for Economic Strategy. September 26, 2019. <<https://ces.org.ua/wp-content/uploads/2019/06/CES-EN-1.pdf>>

The launch of the “IT Creative Fund” by the Cabinet of Ministers is a recent positive indication that the Ukrainian government is taking these policy considerations seriously. As reported in September 2019:

*“According to the prime minister, money from this Fund will be directed to finance three directions: the creation of new campuses and courses for IT specialists, financing of scholarships for students of Ukrainian universities and grants for young scientists... the IT Creative Fund will be funded through a special duty that will grow from 1% in 2020 to 5% in 2024. As expected, the Fund will be launched in 2020; with the funding amounting to UAH 0.5 billion with a further budget increase.”<sup>82</sup>*

These indications should be positive signs for investors that can both take advantage of the low-cost/high-talent dynamic of the country while simultaneously working with government and industry to facilitate the growth of this important economic driver. As John Kim Sung aptly notes, there exists an “opportunity to be Lewis and Clark in Ukraine” and that a huge difference can be made.<sup>83</sup> Investments in these areas certainly would have a large impact. For further information on resources for learning about establish R&D in Ukraine and getting specific consulting advice, Figure 35 provides three of the top consultancies as well as links to their website.

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<sup>82</sup> Ukrinform, “Government Initiates Launch of IT Creative Fund”. September 4, 2019.  
<<https://www.ukrinform.net/rubric-economy/2773083-government-initiates-launch-of-it-creative-fund.html>>

<sup>83</sup> Melinda Haring, “Hard Talk”. Atlantic Council. June 25, 2019  
<<https://www.atlanticcouncil.org/blogs/ukrainealert/hard-talk/>>

<b>Figure 35 – Resources for R&amp;D Localization Consultancy in Ukraine</b>		
<b>Name</b>	<b>Description from Website</b>	<b>Link</b>
Qubit Labs (HQ in Estonia)	<i>“We build dedicated teams in Ukraine in a smart and cost-effective way. Our mission is to make hiring dedicated teams an easy and risk-free process. Started as an outsourcing and outstaffing company then quickly realized that remote teams are a better way to satisfy our client’s needs and switched to an outstaffing model only. Now Qubit Labs actively develop this service and its varieties: dedicated team, BPO services, turnkey R&amp;D setup.”</i> <sup>84</sup>	<a href="#">Website</a>
Daxx (Dutch)	<i>“Daxx is a Netherlands-based company with 20 years on the market. We help businesses solve the problem of local talent shortage. Build a cross-functional team with custom hired software engineers and benefit from our value-added services.”</i> <sup>85</sup>	<a href="#">Website</a>
N-iX (Ukrainian)	<i>“N-iX is an Eastern European software development service company with over 1,000 tech experts. Since 2002, we have helped businesses across the globe expand their engineering capabilities and build successful software products.”</i> <sup>86</sup>	<a href="#">Website</a>

### ***1.2.2(2) General Incentives for U.S. to Purchase Ukrainian Products and Services***

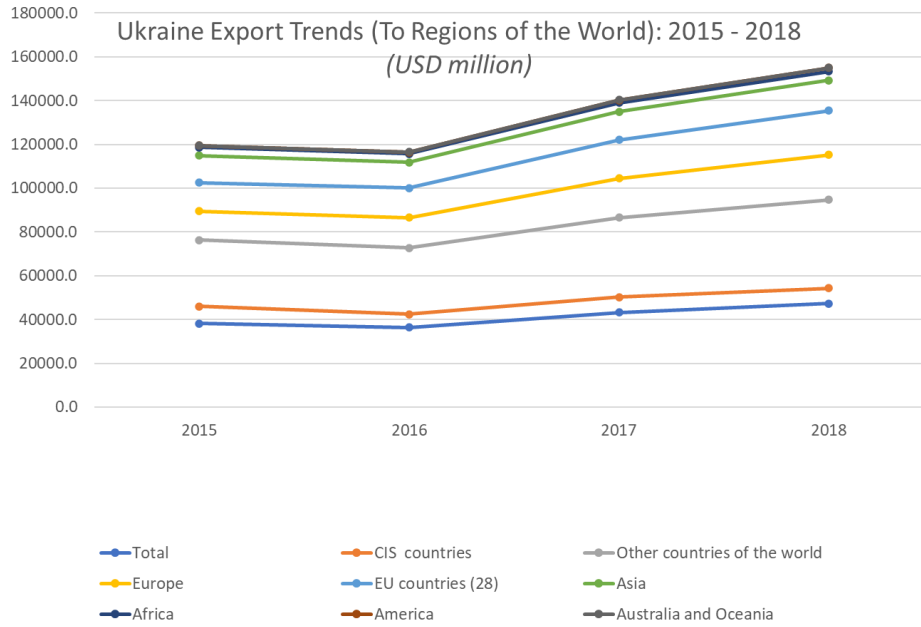
Ukraine has much to offer the United States in terms of the goods and services it produces. In terms of goods, exports from Ukraine have been steadily increasing in all regions of the world, indicating an increase in Ukraine’s output capacity as well as in global demand for its products (Figure 36). In terms of Ukraine’s manufacturing output, trends up until 2019 indicated positive growth with 2019 manufacturing output being at 100.9% of its 2018 levels. Figure 37 indicates the top 5 manufacturing sectors with the greatest growth during that same period.

<sup>84</sup> Qubit Labs <<https://qubit-labs.com/>>

<sup>85</sup> Daxx <<https://www.daxx.com/>>

<sup>86</sup> N-iX <<https://www.n-ix.com/>>

**Figure 36**



**Figure 37 – Recent Growth Trends: Top 5 Manufacturing Sector Increases in 2019**

Sector	2019 Percentage Change Relative to 2018 Output
Manufacture of motor vehicles	130.2%
Manufacture of articles of concrete, cement and plaster	127.7%
Manufacture of wiring and wiring devices	127.6%
Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms	124.6%
Treatment and coating of metals; machining	124.4%

Over the last several years the standards of Ukrainian products have also undergone significant improvements. In 2015, Ukraine adopted 3,996 national standards and an additional 1,300 standards in 2016.<sup>87</sup> These fall primarily under the purview of the Law of Ukraine No. 1315-

<sup>87</sup> International Trade Administration, “Ukraine Country Commercial Guide: Ukraine – Trade Standards”. August 6, 2019 <<https://www.export.gov/apex/article2?id=Ukraine-Trade-Standards>>

VII, “On Standardization”.<sup>88</sup> Rising quality coupled with affordability make Ukrainian products particularly attractive for countries around the world.

With regard to the United States in particular, Ukrainian goods offer a number appealing characteristics. To get a sense of what U.S. demand for Ukrainian goods in recent years has been in recent years, Figure 38 shows the top 5 sectors for which the flow of Ukrainian goods to the United States has increased the most between 2018 and 2019. Goods in the table are disaggregated at the HTS-2 level and are based on their customs value. This gives an indication for the fastest growing trade areas between Ukraine and the United States. To show historical trends, Figure 39 gives those commodity groups that have had the highest average import rates in terms of customs value into the United States between 2015 and 2019.<sup>89</sup>

<b>Figure 38 – Highest Product Category Import Increases to U.S. (2018 – 2019)</b>	
<b>Product Category (HTS-2 Level)</b>	<b>Percentage Change (2018 – 2019)</b>
Glass and glassware (70)	24,056%
Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof (87)	7,618%
Articles of apparel and clothing accessories, not knitted or crocheted (62)	3,918%
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3,770%
Vegetable textile fibers nesoi; yarns and woven fabrics of vegetable textile fibers nesoi and paper	2,546%

<sup>88</sup> Закон України: Про стандартизацію (Відомості Верховної Ради (ВВР), 2014, № 31, ст.1058) <<https://zakon.rada.gov.ua/laws/show/1315-18>>

<sup>89</sup> United States International Trade Commission, DataWeb. <<https://dataweb.usitc.gov/>>

<b>Figure 39 – Highest Average Import Rates in terms of Customs Value (2015 – 2019)</b>	
<b>Product Category (HTS-2 Level)</b>	<b>Average Customs Value</b>
Iron and steel (72)	\$389,347,195
Articles of iron or steel (73)	\$94,404,475
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder (12)	\$36,874,504
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories (85)	\$27,535,573
Dairy produce; birds' eggs; natural honey; edible products of animal origin (04)	\$26,725,839

**O.R. 1f**

- **Further analyze high growth rates in particular sectors** – this can provide insights into best practices for continuing export promotion policies

**O.R. 2f**

- **Further analyze high growth rates in particular sectors** – this can provide insights into where significant investment opportunities may lie in both the long- and short-term.

Furthermore, purchasers from the United States can take advantage of the Generalized System of Preferences (GSP). The GSP is a United States program that provides preferential, duty-free treatment to eligible products from designated countries around the world, including Ukraine. Having zero duties on goods coming into the country actually saves U.S. entities a significant amount of money. It is also a win for Ukrainian exporters and is an important element in Ukraine’s policies focusing on export promotion. The Coalition for GSP, a group of American companies and trade associations supporting the continuation of the program, estimate that the GSP program saved American companies approximately \$1.035 billion in 2019. Figure 40 is a summation of the

benefits from the GSP program in the United States in 2019 taken from the Coalition for GSP's website.<sup>90</sup> In that same year, GSP saved American consumers on approximately \$55,356,065 worth of goods coming from Ukraine. According to the Coalition for GSP, Ukraine faces the fourth highest average tariffs among GSP-eligible countries (7.7%). Using this average, it can be estimated that approximately \$4.2 million worth of savings duties occurred on Ukrainian imports in 2019.

**O.R. 1g**

- **Further promote GSP benefits to U.S. business partners or in marketing strategies** – the savings from GSP programs can potentially give Ukrainian products a competitive edge over options from non-GSP importers

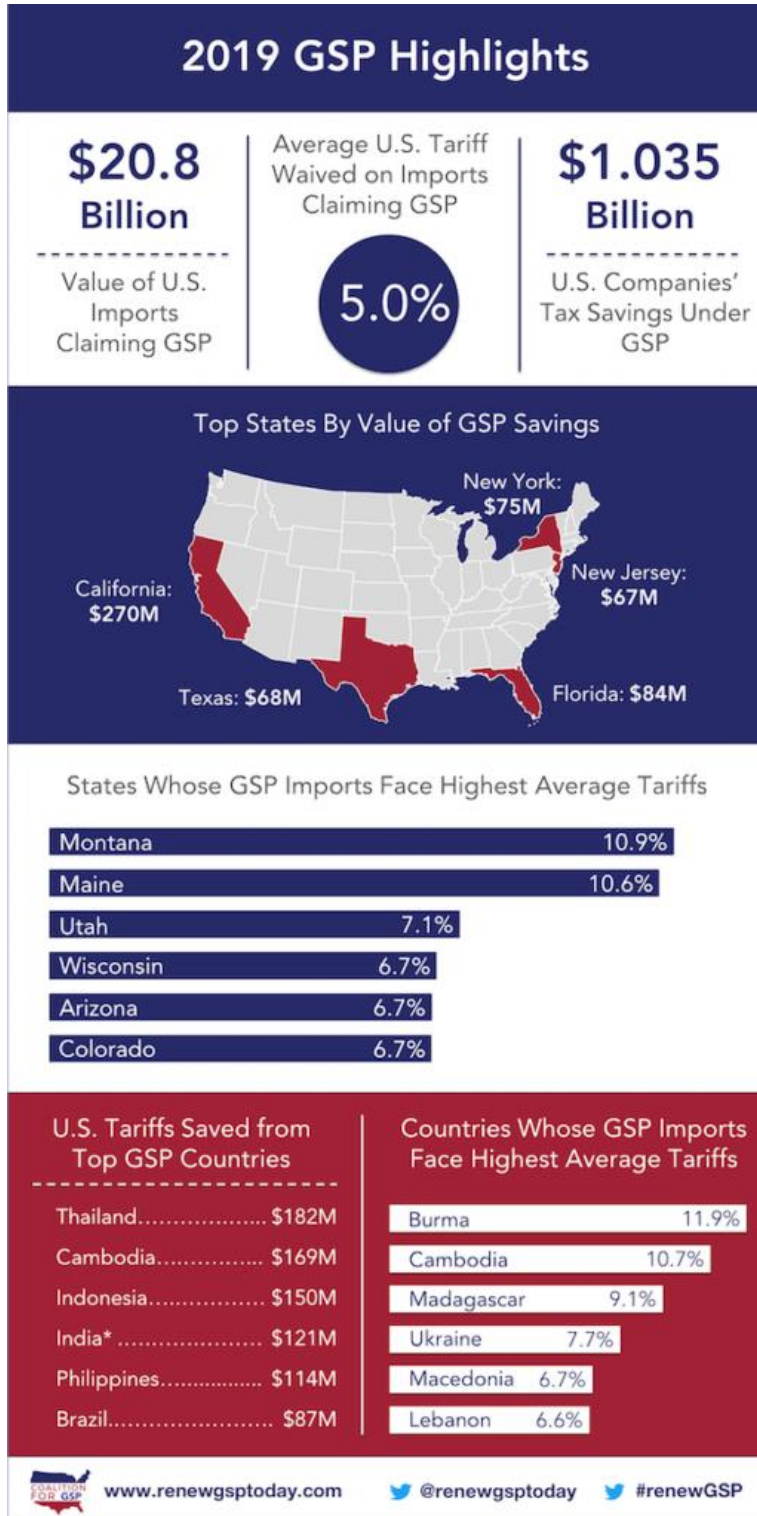
**O.R. 2g**

- **Gain further understanding of GSP procedures and consider taking political action to ensure continuation of the program** – American companies should review if they have inputs that can be imported under tariff-free treatment and work with importers from countries such as Ukraine to benefit. Furthermore, the GSP program must be renewed periodically. Associations like the Coalition for GSP can provide an important voice for U.S. industry.

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<sup>90</sup> Coalition for GSP, "GSP Saved American Companies \$1.035 Billion in 2019"  
<<http://renewgsptoday.com/2020/05/05/gsp-saved-american-companies-1-035-billion-in-2019/>>

Figure 40



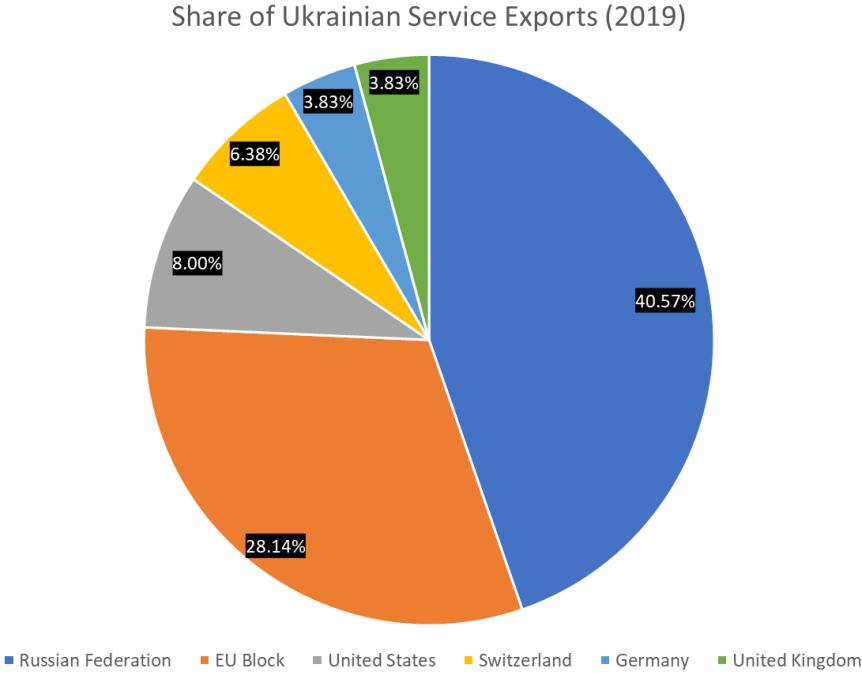
Source: Coalition for GSP, "2019 GSP Highlights"<sup>91</sup>

<sup>91</sup> Ibid.



As mentioned earlier, trade in services composes a major part of the Ukrainian economy (more than 23% of Ukraine’s GDP in 2018). However, what is interesting in terms of Ukraine’s export of services, despite its geographic distance from the United States, the U.S. consistently ranks as one of the top importers of Ukrainian services. Figure 41 shows the top 5 individual countries which imported Ukrainian services in 2019. The United States actually ranks as the number 2 destination for Ukrainian services when excluding the EU countries as a collective (number 3 when including the EU block).<sup>92</sup> In 2019, Ukrainian service exports to the United States accounted for 8% of the total. This is a testament to the quality of services offered by Ukrainian service providers and its recognition by U.S. customers. This has been attested to by many entrepreneurs and enterprises from the United States once they began business relations with Ukraine.

**Figure 41**



<sup>92</sup> SSSU

The top 5 overall sectors for which Ukraine exported its services globally in 2019 are as follows:

- Transport Services: 59.3%
- Services in the sphere of telecommunications, computer and information services: 16%
- Services for the processing of material resources: 10.7%
- Business services: 7.9%
- Services connected with travels: 2.1%

The fastest growing areas within those sectors are calculated as those with the greatest percentage change between 2018 and 2019. Figure 42 gives these dynamics in table form. Having an understanding of the dynamics of the service sector of Ukraine gives a sense of what is available to consumers and investors in the United States and where to keep a close eye on in terms of Ukrainian goods and services.

<b>Figure 42 – Ukrainian Service Subsectors with Highest 2018 – 2019 Growth Rates</b>	
<b>Sub-Sector</b>	<b>Growth Rate (Percentage of 2018)</b>
<b>Transport Services (59.3% total share of service exports)</b>	
Pipe transport services	199.5% ( <i>upward trend</i> )
<b>Telecommunication and IT Services (16% total share of service exports)</b>	
Information services	122% ( <i>upward trend</i> )
<b>Material Resource Processing Services (10.7% total share of service exports)</b>	
Services for the processing of goods abroad	95.9% ( <i>slight downward trend</i> )
<b>Business Services (7.9% total share of service exports)</b>	
Services for treatment and depollution	358.1% ( <i>upward trend</i> )
<b>Travel Services (2.1% total share of service exports)</b>	
<i>No subsector data available</i>	N/A

#### **O.R. 2h**

- **Export in services data can provide useful insights into available options for U.S. consumers** –assessing the sectors of countries like Ukraine that have shown considerable growth can serve as an indication of value for service consumers in the U.S. Furthermore, e-commerce and technology are making these services more accessible regardless of geographic distance.

The quality of services provided is an important element for demand from the United States. As Ukraine Invest writes:

*“Many US and European companies have found it easier to work with developers and outsourcing companies in Ukraine than with other traditional outsource countries because of Ukraine’s close alignment to European cultural ideals, values, norms and mentalities. Additionally, Ukrainians have a well-earned reputation for being able to do the hard work required, no matter what the job.”*<sup>93</sup>

Investor John Kim Sung also notes the “world-class talent” present in Ukraine’s workforce.<sup>94</sup> In the first months of 2020, the data showed that U.S. consumers of Ukrainian service exports recognized this potential. When comparing the first quarter of 2020 with the first quarter of 2019, there was a 125% increase in exports of Ukrainian services to U.S. consumers (from \$265.3 million to \$331.6 million).<sup>95</sup> With regard to trends in Ukrainian service exports to the United States, the following figures summarize these dynamics. Figure 43 gives the top 5 sectors of service exports to the United States from Ukraine in 2019 as well as those that experienced the highest growth rates relative to 2018 export levels. Finally, Figure 44 gives a comparison of the various service sectors from the first quarter of 2019 and the first quarter of 2020.

<b>Figure 43 – Top Ukrainian Service Sector Exports to U.S.&amp; Highest Growth Rates (2018-2019)</b>			
	<b>Sector</b>	<b>Share of 2019 Service Exports</b>	<b>Value (USD million)</b>
1.	Services in the sphere of telecommunications, computer and information services	66.8%	\$814.74
2.	Transport Services	15.8%	\$192.98
3.	Business Services	11.8%	\$144.17
4.	Services connected with financial activity	3%	\$37.17
5.	Services Connected with Travel	1.1%	\$13.43

<sup>93</sup> Id. 59

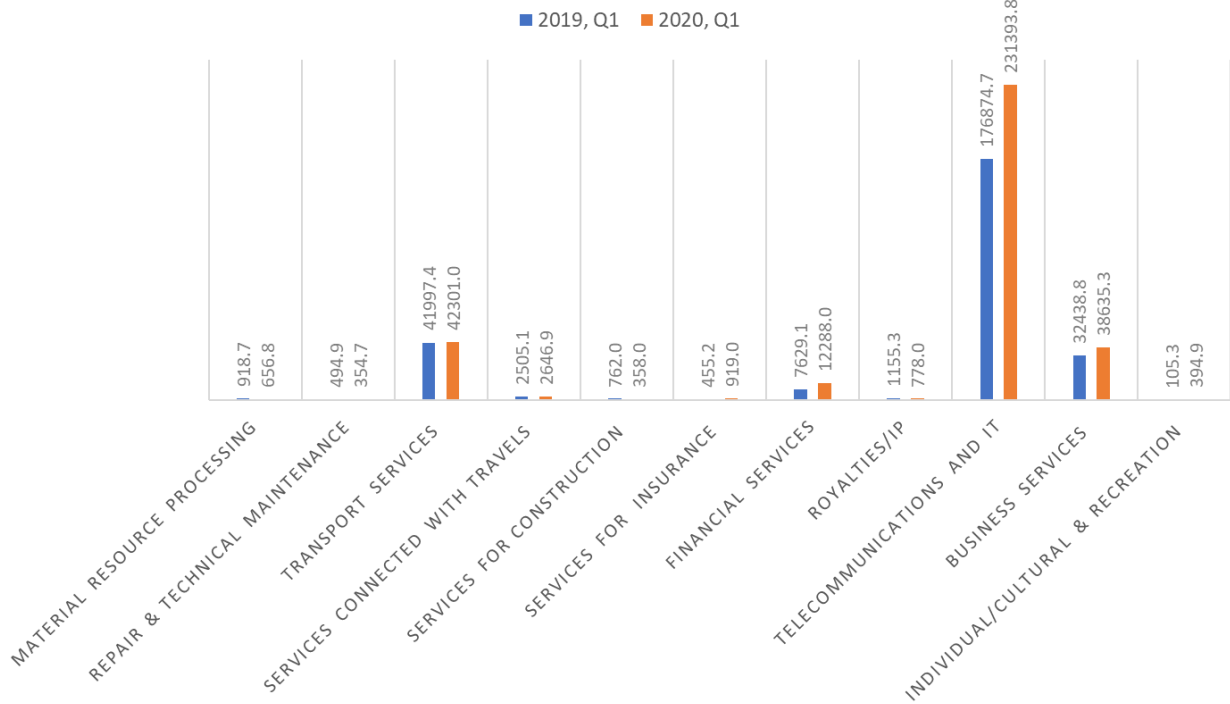
<sup>94</sup> Id. 83

<sup>95</sup> SSSU

Ukrainian Service Sectors with Highest Growth Rates (2018 – 2019)		
	Sector	Growth Rate (% of 2018 Export Levels)
1.	Services rendered to individual persons, cultural and recreation services	199%
2.	Business services	130.4%
3.	Services in the sphere of telecommunications, computer and information services	124.6%
4.	Transport Services	112.7%
5.	Services connected with travels	108.5%

Figure 44

UKRAINE SERVICE EXPORTS TO UNITED STATES:  
2019 Q1 & 2020 Q1 COMPARISON



**O.R. 1h**

- Further analyze top performers in Ukrainian service export sectors – doing so can identify best practices and see what factors have the greatest impact on U.S. demand.

### 1.2.2 (3) Specific Incentives for U.S. to Purchase Ukrainian Products and Services – IT Sector

Of particular note is Ukraine’s growing IT sector. As indicated above, this sector accounted for the second greatest share of service exports from Ukraine in 2019. In terms of trade in services, the IT sector comprises over two-thirds of service exports to American consumers. It is also one of the fastest growing sectors in Ukraine-U.S. trade in services, with a growth rate of 124.6% between 2018 and 2019 and a growth rate of 130.8% between 2019 Q1 and 2020 Q1. Figure 45 demonstrates the meteoric rise of Ukraine’s IT service sector from 2010 to 2019 as well as its growth relative to comparably sized sectors.

**Figure 45**



Ukraine’s IT service exports has grown by 362% since over the last ten years (since 2010) and 153% over the last five (since 2015). Given Ukraine’s impressive track record of IT

service, it is little wonder why exports have continually increased. As Victoria Collins, an IT entrepreneur and contributor to Forbes magazine, wrote on Ukraine’s IT services, “I have learned that Ukraine’s developers have helped to build Ford’s in-car infotainment systems, Reuters’ award-winning photography app, Nokia’s customer retail experience, and Deutsche Bank’s Risk Management System to name just a few.”<sup>96</sup> Ukraine has also been rising in its rank in the World Intellectual Property Organization’s (WIPO) Global Innovation Index over the last several years and has held its spot as the second highest ranked among the lower-middle income (LMI) countries from 2017 to 2019. While there is a slight dip in its overall ranking in 2019 (Figure 46), this is primarily due to “input” sub-indices.<sup>97</sup> In terms of the products and services Ukraine provides, however, it has achieved significant improvements, keeping it ranked as one of the top innovators in its technological and creative outputs (#1 in lower-middle income countries and #25 in all of Europe). This innovation output, rather than the total score, is a good indication of what Ukraine has to offer American consumers in these high-tech markets. Figure 47 is taken from the 2019 Global Innovation Index Report and highlights Ukraine’s standing as a producer of innovative products and services in 2019.

<b>Figure 46 – Ukraine’s Global Innovation Index Rankings (2015 – 2019)</b>			
<b>Year</b>	<b>Ranking (Global)</b>	<b>Ranking (Europe)</b>	<b>Ranking (LMI Countries)</b>
2015	64	37	4
2016	56	34	2
2017	50	33	2
2018	43	30	1
2019	47	32	2

<sup>96</sup> Victoria Collins, “The Ukrainian Tech Industry Is Thriving”. Forbes. October 1, 2019. <<https://www.forbes.com/sites/victoriacollins/2019/10/01/the-ukrainian-tech-industry-and-the-launch-of-the-ukraine-it-creative-fund/#79c947974031>>

<sup>97</sup> Soumitra Dutta, Bruno Lanvin, and Sacha Wunsch-Vincent. “Global Innovation Index 2019: 12<sup>th</sup> Edition”. Cornell INSEAD WIPO. <<https://www.globalinnovationindex.org/gii-2019-report>>

Figure 47

		Score	Rank	
<b>KNOWLEDGE &amp; TECHNOLOGY OUTPUTS... 34.6 28</b>				
<b>6.1</b>	<b>Knowledge creation</b>	<b>42.5</b>	<b>17</b>	● ◆
6.1.1	Patents by origin/bn PPP\$ GDP	6.2	17	● ◆
6.1.2	PCT patents by origin/bn PPP\$ GDP	0.4	38	◆
6.1.3	Utility models by origin/bn PPP\$ GDP	24.3	1	● ◆
6.1.4	Scientific & technical articles/bn PPP\$ GDP	9.2	54	
6.1.5	Citable documents H-index	15.0	49	
<b>6.2</b>	<b>Knowledge impact</b>	<b>40.1</b>	<b>47</b>	
6.2.1	Growth rate of PPP\$ GDP/worker, %	3.2	22	
6.2.2	New businesses/th pop. 15-64	1.5	60	
6.2.3	Computer software spending, % GDP	0.5	19	● ◆
6.2.4	ISO 9001 quality certificates/bn PPP\$ GDP	3.5	70	
6.2.5	High- & medium-high-tech manufactures, %	0.2	56	
<b>6.3</b>	<b>Knowledge diffusion</b>	<b>21.3</b>	<b>47</b>	
6.3.1	Intellectual property receipts, % total trade	0.2	43	
6.3.2	High-tech net exports, % total trade	2.0	53	
6.3.3	ICT services exports, % total trade	4.8	11	● ◆
6.3.4	FDI net outflows, % GDP	0.1	96	
<b>CREATIVE OUTPUTS... 33.5 42</b>				
<b>7.1</b>	<b>Intangible assets</b>	<b>55.8</b>	<b>17</b>	● ◆
7.1.1	Trademarks by origin/bn PPP\$ GDP	128.6	6	● ◆
7.1.2	Industrial designs by origin/bn PPP\$ GDP	13.4	8	● ◆
7.1.3	ICTs & business model creation*	49.1	109	○
7.1.4	ICTs & organizational model creation*	55.6	58	
<b>7.2</b>	<b>Creative goods &amp; services</b>	<b>8.8</b>	<b>91</b>	
7.2.1	Cultural & creative services exports, % total trade	0.4	58	
7.2.2	National feature films/mn pop. 15-69	0.6	94	○
7.2.3	Entertainment & Media market/th pop. 15-69	n/a	n/a	
7.2.4	Printing & other media, % manufacturing	1.0	62	
7.2.5	Creative goods exports, % total trade	0.2	82	
<b>7.3</b>	<b>Online creativity</b>	<b>13.6</b>	<b>43</b>	◆
7.3.1	Generic top-level domains (TLDs)/th pop. 15-69	4.5	57	◆
7.3.2	Country-code TLDs/th pop. 15-69	4.7	51	◆
7.3.3	Wikipedia edits/mn pop. 15-69	31.1	38	◆
7.3.4	Mobile app creation/bn PPP\$ GDP	24.3	19	◆

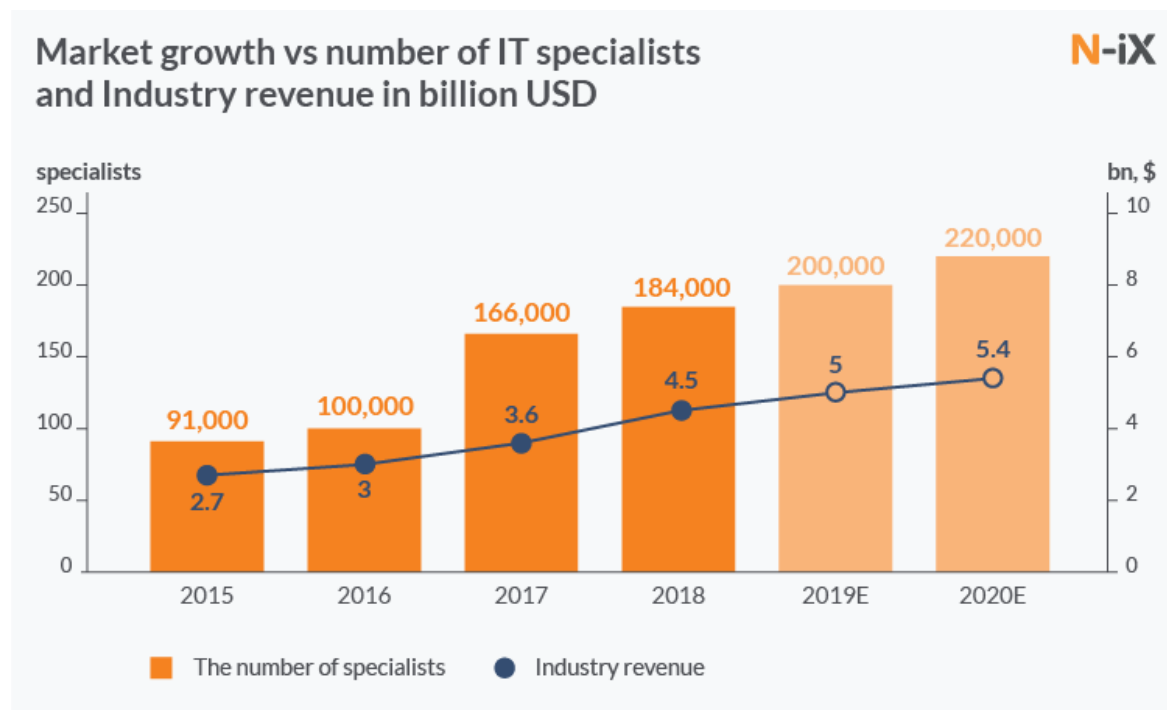
Source: Global Innovation Index 2019, 12<sup>th</sup> Edition

**O.R. 1i**

- **Use international ranking indicators to find leverage points** – these assessments by organizations like WIPO and the world bank can help policy-makers and business entities find specific areas to leverage for capacity building.

Ukraine’s talent pool offers much to U.S. consumers of IT services. Figures 48, 49 and 50 give a general overview of the talent pool, highlighting the increase in IT specialists, the programming languages used and the composition of the Ukrainian talent pool as of 2019.<sup>98</sup> These statistics were compiled by N-iX, a software development company that was itself started in Lviv in 2002. In fact, Ukraine also ranks 20<sup>th</sup> in the world in A.T. Kearney Global Services Location Index in 2019.<sup>99</sup> As N-iX notes, “the country’s financial attractiveness, people skills and availability, and business climate have improved, so it went up by 13 positions in the ranking in 2017.”<sup>100</sup>

**Figure 48**



<sup>98</sup> N-iX, “Ukraine: The Country That Codes”. 2019 <[https://s3-eu-west-1.amazonaws.com/new-n-ix.com/uploads/2019/09/26/Software\\_development\\_in\\_Ukraine\\_2019\\_2020\\_IT\\_industry\\_market\\_report.pdf](https://s3-eu-west-1.amazonaws.com/new-n-ix.com/uploads/2019/09/26/Software_development_in_Ukraine_2019_2020_IT_industry_market_report.pdf)>

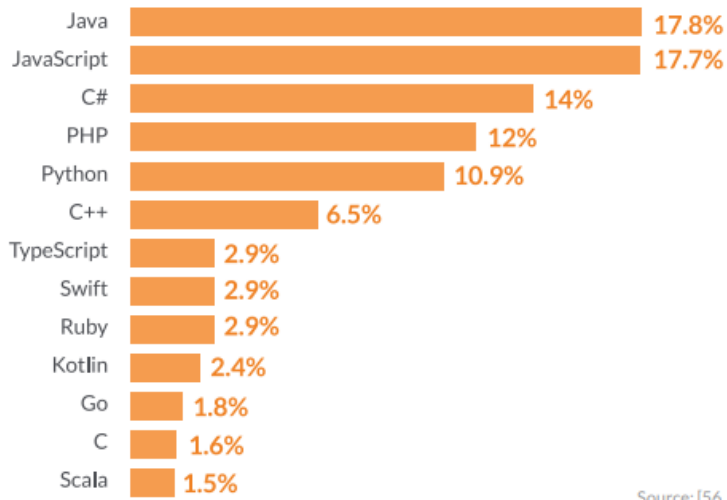
<sup>99</sup> Kearney, “Digital Resonance: The New Factor Influencing Location Attractiveness”. 2019 <<https://www.kearney.com/documents/20152/4977724/Digital+resonance+the+new+factor+influencing+location+attractiveness.pdf/7a39643a-dc22-87f5-936b-5e734999f57d?t=1581025251793>>

<sup>100</sup> Id. 69

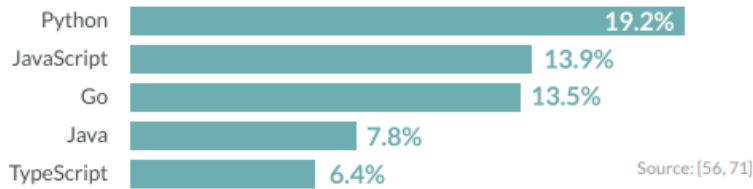


**Figure 49**

PROGRAMMING LANGUAGES USED BY UKRAINIAN SOFTWARE DEVELOPERS

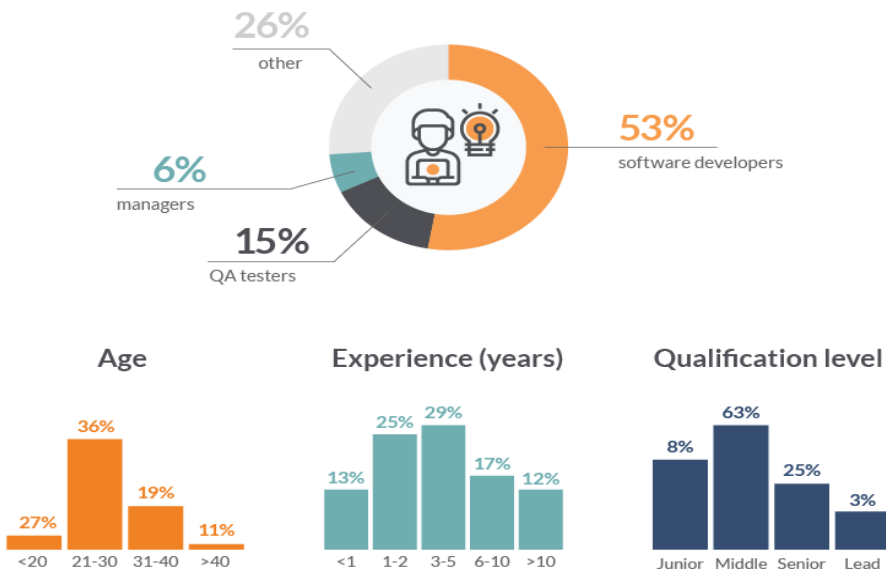


PROGRAMMING LANGUAGES UKRAINIAN ENGINEERS PLAN TO MASTER IN 2019



**Figure 50**

Composition of the Ukrainian tech talent pool



For more information on individual organizations and to get an overview of the quality of services provided by Ukrainian IT companies, Figure 51 provides the Top 10 IT service providers as rated by Clutch as of May 2020. More information can be found [here](#) or in the corresponding footnote below.<sup>101</sup> Figure 52 gives information on the most recent ratings from the International Association of Outsourcing Providers’ 2020 Global Outsourcing 100 list. In fact, over 20% of companies on the list (21 in total) are located in Ukraine and 13 are of Ukrainian origin. Those 13 are listed below.

<b>Figure 51 – Clutch Ranking of Top IT Service Providers in Ukraine</b>	
<b>Rank</b>	<b>Company Name</b>
1.	IT Svit
2.	SoftServe
3.	Sphere Software
4.	Avenga US
5.	Symphony Solutions
6.	Infopulse
7.	DOOR3
8.	Dysnix
9.	SYSTEM ADMINS PRO
10.	CoreQ

<sup>101</sup> Clutch, “Top Ukraine IT Consulting Companies – Leaders Matrix” <<https://clutch.co/it-services/ukraine/leaders-matrix>>

**Figure 52 – IAOP 2020 Global Outsourcing 100: Companies of Ukrainian Origin**

<b>Rank</b>	<b>Company Name</b>
1.	AMC Bridge
2.	Ciklum
3.	Computools
4.	Eleks
5.	Infopulse
6.	Innovecs
7.	Magnise
8.	Miratech
9.	N-iX
10.	Program Ace
11.	Sigma Software
12.	Softengi
13.	Softjournal

**O.R. 1j**

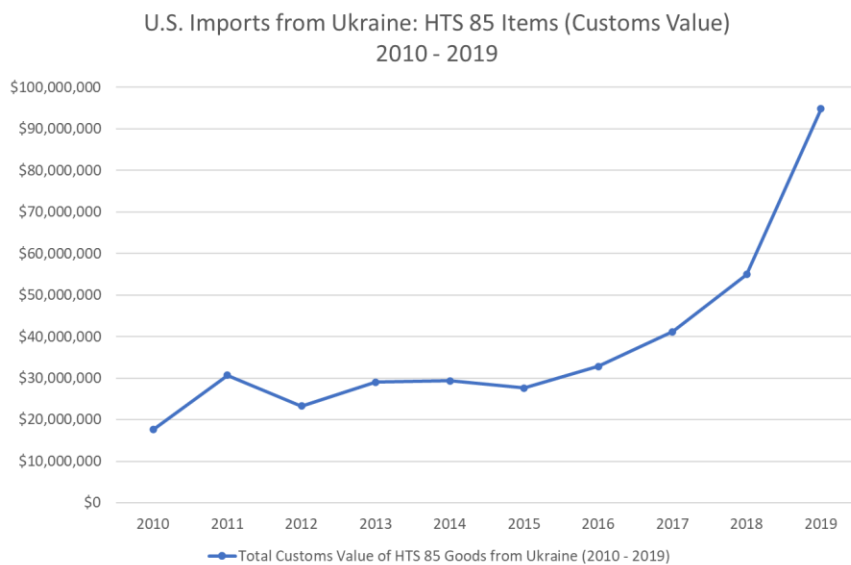
- **Further private-public collaboration with some of Ukraine’s top IT performers** – by finding best practices of Ukrainian-grown IT companies with top-tier track records, policy can be crafted around their experiences. Expertise from these companies can also be used to assist up-and-coming entities in the IT sector.

**O.R. 2i**

- **Use global rankings to inform business decisions** – rankings such as those by Clutch and the IAOP provide important insights for entities in the U.S. seeking quality service that is affordable in the IT and telecommunications space.

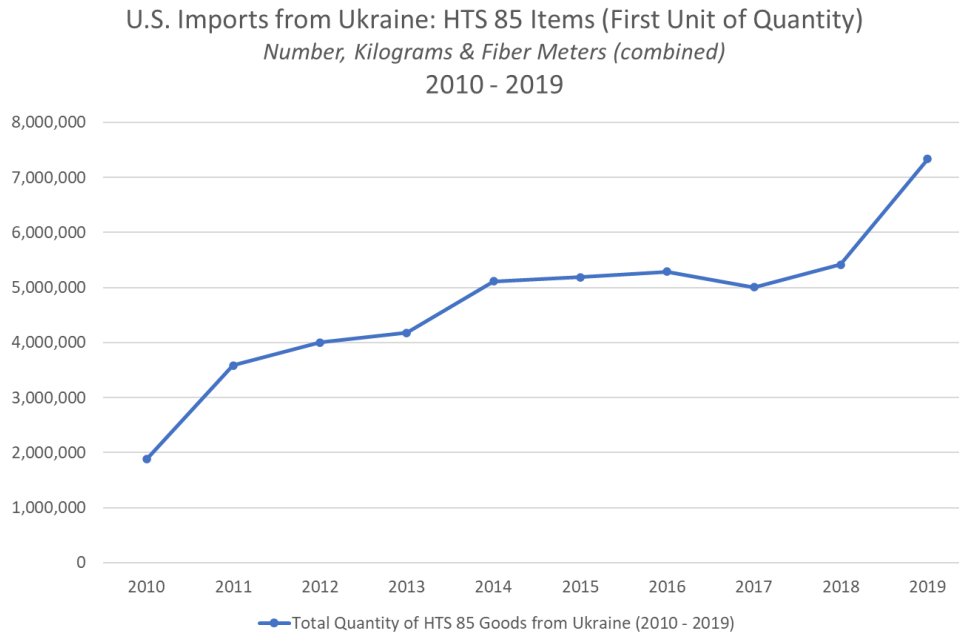
In order to assess U.S. demand for Ukrainian products in the IT sector, data analysis was done conducted on goods falling under the Harmonized Tariff Schedule (HTS) Chapter 85 (Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles). While this encompasses a large number of electronics and other mechanical goods, it gives an indication of overall trends in the flow of goods from Ukraine to the United States. Data was gathered using the U.S. International Trade Commission’s DataWeb portal, which can be accessed [here](#).<sup>102</sup> Figures 53 and 54 below show the trends in overall trade of HTS 85 products from Ukraine to the U.S. from 2010 to 2019 in both customs value and quantity. Figures 55 and 56 show the top ten HTS 85 products imported into the United States from Ukraine as well as those with the greatest import growth rate between 2018 and 2019. Finally, Figure 57 shows those products (by customs value) that were imported into the United States under the aforementioned GSP program and the total estimated savings.

**Figure 53**



<sup>102</sup> United States International Trade Commission, DataWeb. <<https://dataweb.usitc.gov/>>

**Figure 54**



As can be seen from the two figures above, demand for Ukrainian goods has increased significantly over the last ten years both in terms of its USD value as well as absolute quantity. The trend for both increased sharply from 2018 to 2019. This is most likely a result of increases in the quality and availability of electronic goods from Ukraine as well as growing collaboration between the United States and Ukraine in the telecommunications sphere. For further insights into which product categories have contributed to this large increase in electrical machinery and equipment, the following figures give show the top HTS 85 products imported in 2019 (in terms of both value and quantity) as well as those with the greatest growth rates during the 2018-2019 jump outlined in the above graphs.

**O.R. 1k**

- **Trade data analytics can serve as an important policy tool** – assessing the trends in bilateral trade data (particularly causes of increases in exports of certain products) can help identify options for furthering Ukrainian export promotion. It can also pinpoint companies producing certain goods, where those goods are going and how government support can be provided most efficiently.

**Figure 55 – Top HTS 85 Imports from Ukraine (Customs Value)**

<b>Rank</b>	<b>HTS Code</b>	<b>Commodity Description</b>	<b>Customs Value</b>
1.	8517	Electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof	\$32,173,706
2.	8516	Electric water heaters etc., space and soil heating apparatus; electrothermic hair apparatus (curlers etc.), hand-dryers, flatirons etc.; parts	\$23,384,522
3.	8545	Carbon electrodes, carbon brushes, lamp carbons, battery carbons and other articles of graphite or other carbon used for electrical purposes	\$16,037,640
4.	8544	Insulated wire, cable and other insulated electrical conductors; optical fiber cables, of individually sheathed fibers, with conductors etc. Or not	\$6,266,933
5.	8526	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus	\$4,538,350
6.	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, voltage not over 1,000 v	\$2,205,533
7.	8510	Electric shavers and hair clippers and hair-removing appliances, with self-contained electric motor; parts thereof	\$1,369,335
8.	8501	Electric motors and generators (excluding generating sets)	\$1,363,518
9.	8531	Electric sound or visual signaling apparatus (bells, sirens, burglar or fire alarms etc.), nesoi; and parts thereof	\$1,354,830
10.	8541	Diodes, transistors and similar devices; photosensitive semiconductor devices; light-emitting diodes; mounted piezoelectric crystals; parts thereof	\$1,328,165

**Top HTS 85 Product Import Increases: 2018 – 2019 (Value)**

<b>Rank</b>	<b>HTS Code</b>	<b>Commodity Description</b>	<b>Percentage Change (2018 – 2019)</b>
1.	8517	Electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof	9007.49%
2.	8526	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus	7112.43%
3.	8511	Electrical ignition or starting equipment used for spark-ignition or compression-ignition internal combustion engines; generators etc. Therefor; parts	4582.57%
4.	8518	Microphones and stands therefor; loudspeakers; headphones, earphones etc.; audio-frequency electric amplifiers; electric sound amplifier sets; parts	1188.64%
5.	8523	Prepared unrecorded media (other than motion-picture film) for sound recording or similar recording of other phenomena	888.90%

6.	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, voltage not over 1,000 v	677.34%
7.	8525	Transmission apparatus for radiotelephony, radiotelegraphy, radiobroadcasting or tv; tv cameras; still image video cameras and recdrsr;digital cameras	464.65%
8.	8533	Electrical resistors (including rheostats and potentiometers), other than heating resistors; parts thereof	294.33%
9.	8512	Electrical lighting or signaling equipment nesoi, windshield wipers, defrosters and demisters used for cycles or motor vehicles; parts thereof	427.11%
10.	8521	Video recording or reproducing apparatus, whether or not incorporating a video tuner	194.26%

**Figure 56 – Top HTS 85 Imports from Ukraine (Quantity)**

Rank	HTS Code	Commodity Description	Quantity
1.	8545	Carbon electrodes, carbon brushes, lamp carbons, battery carbons and other articles of graphite or other carbon used for electrical purposes	2,037,211 kg.
2.	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, voltage not over 1,000 v	2,027,841 units
3.	8544	Insulated wire, cable and other insulated electrical conductors; optical fiber cables, of individually sheathed fibers, with conductors etc. Or not	1,843,222 units
4.	8516	Electric water heaters etc., space and soil heating apparatus; electrothermic hair apparatus (curlers etc.), hand-dryers, flatirons etc.; parts	380,006 units
5.	8537	Boards, panels etc. With two or more appar for switching etc. Elec circuits (heading 8535, 8536) or optical etc. Instrument of chapter 90; n/c appar	251,238 units
6.	8544	Insulated wire, cable and other insulated electrical conductors; optical fiber cables, of individually sheathed fibers, with conductors etc. Or not	211,500 fiber meters
7.	8517	Electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof	164,197 kg.
8.	8533	Electrical resistors (including rheostats and potentiometers), other than heating resistors; parts thereof	122,361 units
9.	8531	Electric sound or visual signaling apparatus (bells, sirens, burglar or fire alarms etc.), nesoi; and parts thereof	81,512 units
10.	8541	Diodes, transistors and similar devices; photosensitive semiconductor devices; light-emitting diodes; mounted piezoelectric crystals; parts thereof	42,767 units

<b>Top HTS 85 Product Import Increases: 2018 – 2019 (Quantity)</b>			
<b>Rank</b>	<b>HTS Code</b>	<b>Commodity Description</b>	<b>Percentage Change (2018 – 2019)</b>
1.	8511	Electrical ignition or starting equipment used for spark-ignition or compression-ignition internal combustion engines; generators etc. Therefor; parts	364500%
2.	8517	Electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof	14556.67%
3.	8523	Prepared unrecorded media (other than motion-picture film) for sound recording or similar recording of other phenomena	12809.09%
4.	8515	Electric laser, other light or photon beam, etc. Apparatus, for soldering or welding etc.; electric machines for hot spraying of metals; parts thereof	11400%
5.	8533	Electrical resistors (including rheostats and potentiometers), other than heating resistors; parts thereof	3396.03%
6.	8543	Electrical machines and apparatus, having individual functions, nesoi; parts thereof	1904%
7.	8544	Insulated wire, cable and other insulated electrical conductors; optical fiber cables, of individually sheathed fibers, with conductors etc. Or not	897.83%
8.	8525	Transmission apparatus for radiotelephony, radiotelegraphy, radiobroadcasting or tv; tv cameras; still image video cameras and recdrds;digital cameras	414.38%
9.	8518	Microphones and stands therefor; loudspeakers; headphones, earphones etc.; audio-frequency electric amplifiers; electric sound amplifier sets; parts	125.05%

Of particular note for Ukraine’s telecommunications and IT sector is that HTS code 8517 (electrical apparatus for line telephony or line telegraphy) was both the top import in terms of customs value with an importation increase of over 9000% between 2018 and 2019. This is a clear indication that demand for Ukrainian IT products in the United States is high and should continue to be promoted along with its services. Finally, Figure 57 shows those HTS 85 products imported under the GSP program. While only a select number of HTS 85 products are eligible for preferential treatment under this program, continuing to monitor trends in this area is very



important to both Ukrainian exporters and U.S. consumers so as to capitalize on savings from the program.

<b>Figure 57 –HTS 85 Products Imported Under GSP Program &amp; Estimated Savings (2019)</b>				
<b>HTS Code</b>	<b>Commodity Description</b>	<b>Customs Value</b>	<b>Tariff Rate</b>	<b>Savings</b>
8515.90.2000	Welding machine parts and parts of apparatus	\$828,592	1.6%	\$13,257
8531.90.9001	Parts of electric sound or visual signaling apparatus other than printed circuit assemblies; nesoi	\$740,227	1.3%	\$9,623
8501.51.2040	Ac motor, multi-phase, of an output exceeding 37.5 w but not exceeding 74.6 w, except gearmotors	\$159,316	2.5%	\$3,983
8536.90.8585	Electrical apparatus for switching or protecting electrical circuits, or for making connection to/ in electrical circuits, for a voltage It=1000v,nesoi	\$46,053	2.7%	\$1,243
8535.90.8060	Electrical switching & circuit protection apparatus & connectors, for a voltage exceeding 1000 volts, nesoi	\$9,150	2.7%	\$247
8518.21.0000	Single loudspeakers, mounted in their enclosures	\$7,229	4.9%	\$354
8544.42.9090	Insulated electric conductors, for a voltage not exceeding 1000 volts, fitted with connectors, nesoi	\$5,270	2.6%	\$137
8536.49.0080	Relays, for a voltage exceeding 60 v but not exceeding 1,000 v, nesoi	\$3,780	2.7%	\$102
8538.90.8180	Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537 nesoi	\$3,780	3.5%	\$132
8516.60.6000	Electric cooking plates, boiling rings, grillers, & roasters	\$3,200	2.7%	\$86
8537.10.9170	Bases equipped w gt=2 apparatus from heading 8535 or 8536, for electrical control/distribution of electricity, not exceeding 1,000 v, nesoi	\$2,175	2.7%	\$59

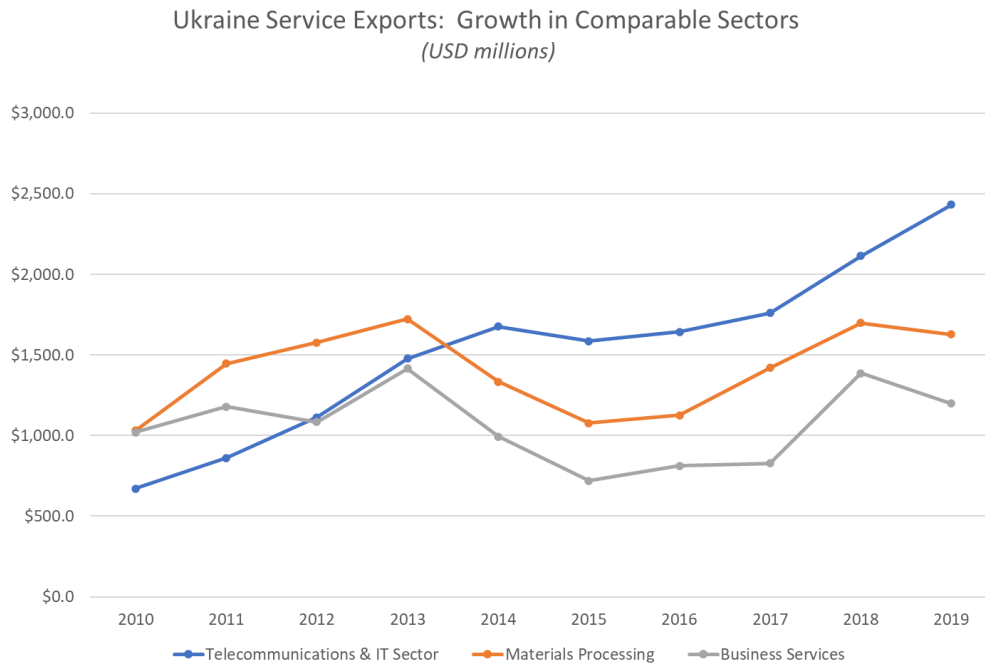
In 2019 there were approximately \$29,225 worth of savings on HTS 85 items imported from Ukraine. The percentage change nearly all HTS 85 items from Ukraine imported under the GSP program between 2018 and 2019 dropped. This means that there is further opportunity to expand the use of Ukraine’s eligibility under this program with respect to its telecommunications and IT sector. This is particularly pertinent now given that a significant amount of Ukraine’s GSP eligibility was recently restored by the White House in October 2019.<sup>103</sup>

<sup>103</sup> Office of the United States Trade Representative, “USTR Announces GSP Enforcement Actions and Successes for Seven Countries”. October 25, 2019 <<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/october/ustr-announces-gsp-enforcement>>

### 1.2.3 General Incentives for Investing in Ukrainian Enterprises

The Ukrainian enterprise environment has been doing quite well over the last several years and offers significant opportunity for potential investors. While the number of enterprises (large, medium and small) declined by about 15% after 2014, this number has increased and stabilized since 2017. Figure 58 shows the total number of enterprises (excluding individual entrepreneurs) from 2010 to 2018. In 2018, the total number of enterprises was 355,877.

**Figure 58**



When individual entrepreneurs are included the total figure of business entities for 2018 is 1.8 million, meaning that entrepreneurs accounted for approximately 80.65% of the total for that year. Hence, individual entrepreneurs account for a very significant portion of Ukrainian business entities and are an area of potential opportunity for foreign investors. To better understand the geographic distribution of the Ukrainian enterprise space, Figure 59 provides a breakdown by region for 2018. It should be noted that while over 25% are registered in Kyiv, their economic activity takes place across the country.

**Figure 59 – Ukrainian Economic Entities by Geography (2018)**

	Total	Enterprises (Small, medium, large)	Percentage of total number of enterprises	Natural Entities – Entrepreneurs	Percentage of the total number of entrepreneurs
<b>Ukraine</b>	<b>1839672</b>	<b>355956</b>	<b>100.0%</b>	<b>1483716</b>	<b>100.0%</b>
Vinnitsya	68649	9713	2.7%	58936	4.0%
Volyn	39248	5917	1.7%	33331	2.3%
Dnipropetrovsk	140377	29124	8.2%	111253	7.5%
Donetsk	62166	9731	2.7%	52435	3.5%
Zhytomyr	49366	6913	1.9%	42453	2.9%
Zakarpattia	51245	6425	1.8%	44820	3.0%
Zaporizhzhya	74382	14995	4.2%	59387	4.0%
Ivano-Frankivsk	52595	8302	2.3%	44293	3.0%
Kyiv	101203	20054	5.6%	81149	5.5%
Kirovograd	36486	8068	2.3%	28418	1.9%
Luhansk	21849	3449	1.0%	18400	1.2%
Lviv	115557	19237	5.4%	96320	6.5%
Mykolayiv	54882	11434	3.2%	43448	2.9%
Odesa	131595	24707	6.9%	106888	7.2%
Poltava	61158	10959	3.1%	50199	3.4%
Rivne	39597	5545	1.6%	34052	2.3%
Sumy	40415	5949	1.7%	34466	2.3%
Ternopil	36908	5043	1.4%	31865	2.1%
Kharkiv	154004	23795	6.7%	130209	8.8%
Kherson	44379	8218	2.3%	36161	2.4%
Khmelnyskiy	61252	7431	2.1%	53821	3.6%
Cherkasy	54534	9176	2.6%	45358	3.1%
Chernivtsi	43571	4096	1.2%	39475	2.7%
Chernihiv	39488	6107	1.7%	33381	2.2%
city of Kyiv	264766	91568	25.7%	173198	11.7%

Small and medium enterprises (SMEs) compose the vast majority of enterprises in Ukraine. In 2018, only 0.1% of registered enterprises were large (250 or more persons employed), 4.5% were medium (50 – 249 persons employed) and 95.4% were small-scale enterprises (10 to 49 persons employed). Of those small-scale enterprises, 82.3% were microenterprises (employing 1 to 9 persons). Hence, the SME sector plays a significant role in Ukraine’s economy and is pivotal for many regions of the country. Figure 60 gives an overview of Ukraine’s SME sector in 2018.

<b>Figure 60 – Ukrainian SME Sector Overview (2018)</b>				
	<b>Number/Share of total in SME Sector</b>	<b>Employment (thousand people employed)</b>	<b>Turnover, UAH billion</b>	<b>Volume of goods and services sold (UAH billion)</b>
Microenterprises	292772 (15.9%)	292.8	599.6	589.7
Small enterprises	46602 (2.5%)	1,348.2	1166.5	1137.7
Medium Enterprises	16057 (0.9%)	2,744.2	3924.1	3813.1
Individual Entrepreneurs	1483716 (80.7%)	2,573	604.3 (2017 figure)	760.8

Two datapoints serve as indicators for where potential investors can look in terms of the Ukrainian enterprise landscape: profitability of enterprises and capital investment expenditures. Profitability is measured as the share of enterprises that were revenue-generated as opposed to loss-making enterprises in a region of Ukraine. This serves as a retrospective performance indicator. Capital investments are an important metric because they can serve as a measure for potential growth in a region. If there was a large influx of investments in 2019, this may show where improvements in output and business infrastructure will occur in 2020 and beyond. Figure 61 shows the top performing regions for each type of enterprise (large, medium and small).

Figure 62 shows the regions for which there was the highest recent influx of capital investment (2018 figures compared as a percentage to 2019 capital investment inflows).

<b>Figure 61 – Ukrainian Enterprises: Retrospective Performance Indicator</b>	
<i>Regions with Highest Share of Profitable Enterprises</i>	
Small Enterprises	<ul style="list-style-type: none"> <li>• Kirovohrad (81.8%)</li> <li>• Ivano-Frankivsk (81.7%)</li> <li>• Mykolayiv (78.8%)</li> <li>• Donetsk (78.8%)</li> <li>• Cherkasy (78.7%)</li> <li>• Kyiv (78%)</li> </ul> <p><i>Average Across Ukraine: 74.1%</i></p>
Medium Enterprises	<ul style="list-style-type: none"> <li>• Vinnytsya (82.1%)</li> <li>• Zhytomyr (81.6%)</li> <li>• Cherkasy (81.8%)</li> <li>• Volyn (81.3%)</li> </ul> <p><i>Average Across Ukraine: 78.2%</i></p>
Large Enterprises	<ul style="list-style-type: none"> <li>• Mykolayiv (100%)</li> <li>• Rivne (100%)</li> <li>• Kherson (100%)</li> <li>• Chernihiv (100%)</li> </ul> <p><i>Average Across Ukraine: 76.9%</i></p>

In terms of capital investment inflows – indicating which regions of Ukraine may have output improvements and potentially profitability increases – capital investment across the country was 107.8% in 2019 when compared to 2018. Total capital investment during the first quarter of 2020 was approximately 79.6 billion UAH (about \$6.5 billion USD). The top areas of absolute capital investment inflows for the first quarter of 2020 were the City of Kyiv (33.2% of total capital investments); Dnipropetrovsk (13.1%); Kyiv Region (6.8%); Poltava (5.4%); and Kharkiv (4.2%).

**Figure 62 – Ukrainian Enterprises: Future Performance Indicator**

*Regions with Highest Increases in Capital Investments (2019)*

<b>Region</b>	<b>Percentage Change (2018 to 2019)</b>
Volyn	145.8%
Kherson	139.7%
Zakarpattya	124.4%
Mikolayiv	124.3%
Kyiv	123.5%
Poltava	123.4%
Donetsk	113.4%
Dnipropetrovsk	111.1%
Chernivtsi	110.1%
Ternopil	110.0%
Kirovohrad	108.5%
Lviv	107.1%
City of Kyiv	106.5%
Luhansk	104.3%
Cherkasy	102.5%

**O.R. 2j**

- **Use data analytics as performance indicators to create investment strategies** – performance indicators can give U.S. companies key insights into geographic regions with high enterprise success rates (retrospective) as well as areas where capital investments have increased (predictive).

**1.2.3 (1) Incentives for Investing in Ukrainian Enterprises – IT Sector**

As noted previously, Ukraine’s IT sector has become its most promising industry and the enterprises within it can prove to be an important investment area. It has been the home of numerous “unicorns”, or IT companies valued at over \$1 billion in just the last years. These include companies like Grammarly or Petcube (both founded in Kyiv) as well as foreign companies that became unicorns while in Ukraine (such as GitLab or Ring). This led Christoph Janz to ask the question, “Will Kyiv become a unicorn factory?” in May 2019 and Andrey Kolodyuk, Chairman

of Ukrainian Venture Capital and Private Equity Association (UVCA) to state in January of that year, “we already had two companies that became unicorn companies and I predict that in the next few years we will have a total of seven.”<sup>104</sup>

Each year, the UVCA and Deloitte Ukraine conduct an annual market report of the Ukrainian venture capital market. Naturally, given the predominance of the IT sector in the country’s economy, much of the report revolves around such business trends. As they noted regarding the overall investment climate, “During the last years we’ve seen steady growth of the Ukrainian investment market. Although the COVID-19 outbreak has made some adjustments to investor plans and startup development, understanding 2019 trends will be helpful for investment market players in order to manage expectations, sustain (and develop) their businesses in a new reality.”<sup>105</sup> According to their report, venture investments into Ukrainian IT companies was one and a half times greater than its 2018 maximum, reaching \$510 million in 2019. Of particular note is that around 90% of investment inflows came from the United States, indicating that American investors are indeed recognizing Ukraine’s potential in this sector. The report notes 111 deals in 2019 and an 18-fold increase in the volume of merger and acquisition (M&A) transactions. Furthermore, the number of angel investments increased by seven times (\$6.1 million in 2019 compared to \$0.9 million in 2018).<sup>106</sup> Figure 63 summarizes the top 10 deals in 2019 according to their report.

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<sup>104</sup> Ukrainian Venture Capital & Private Equity Association, “Unicorns Expected to Multiply in Ukraine”. January 22, 2019 <<http://uvca.eu/en/project/unicorns-expected-to-multiply-in-ukraine>>

<sup>105</sup> Deloitte, “Ukrainian Venture Capital and Private Equity Overview 2019” <<https://www2.deloitte.com/ua/en/pages/press-room/press-release/2020/investments-into-startups-2019.html>>

<sup>106</sup> Ibid

<b>Figure 63 – Ukrainian Venture Capital and Private Equity Overview 2019: Top 10 Deals</b>		
<b>Growth</b>	<b>Series A</b>	<b>Seed</b>
GitLab (\$268 million)	Allset (\$5 million)	PromoRepublic (\$2.3 million)
Grammarly (\$90 million)	Unstoppable Domains (\$4 million)	RetargetApp (\$1.5 million)
People.ai (\$60 million)	MyCredit (\$3 million)	
JiJi.ng (\$21 million)	AllRight (\$1.5 million)	

For further information on the Ukrainian IT startup environment, Inventure Investment Group created a database that compiled all of the venture capital deals in the IT sector from 2008 to 2020. A review of this database will give potential investors a deeper sense of what exists in the Ukrainian IT market as well as where investment dollars have been flowing. Figure 64 provides a snapshot from this database by including the three most recent deals from January 2020. The full database can be found [here](#) or via the corresponding footnote.<sup>107</sup> Another resource from Inventure is their investment proposal portal, where prospective investors can easily browse opportunities in Ukraine. To give an illustration, data from the most recent postings are provided in Figure 65. The portal can be found [here](#) or via the corresponding footnote.<sup>108</sup>

<b>Figure 64 – January 2020 Investment Deals in the IT Sector</b>							
<b>Company</b>	<b>Short Description</b>	<b>Sector</b>	<b>Deal Value</b>	<b>Deal Type</b>	<b>Investors</b>	<b>Investor Type</b>	<b>Capital Origin</b>
Very Good Security	Data security platform that enables users to collect, protect, and exchange	Online Services		Corporate	Andreessen Horowitz, Goldman Sachs, Vertex Ventures, Max	Venture Capital	US

<sup>107</sup> Inventure, “База данных: Венчурные инвестиции и M&A сделки в IT секторе Украины за 2008-2020 гг” <[https://inventure.com.ua/tools/database/venchurnye\\_sdelki\\_v\\_it\\_sektore\\_ukrainy](https://inventure.com.ua/tools/database/venchurnye_sdelki_v_it_sektore_ukrainy)>

<sup>108</sup> Inventure, “Investment Projects in Ukraine” <<https://inventure.com.ua/en/investments/projects>>



	sensitive data				Levchin, Visa Ventures		
Propertymate	AI-powered real estate property management software	Software	\$120,000	Preseed	Techstars	Accelerator	US
Mriyar	Marketplace for vehicle spare parts	E-commerce	\$300,000	Preseed	Angel Investors	Angel	Unknown

**Figure 65 – Most Recent Inventure Investment Proposal Postings (as of May 2020)**

Description	Stage	Required Investments	Share in Capital	Date Posted
Online Platform integrating entire food market: Investments in the development of an online platform for organizing interaction between manufacturers, suppliers and buyers of food products in B2B, B2C, C2C, C2B segments.	Early	\$75,000	15%	May 2020
DimDim – Personal online real estate broker: Investments in the operating service for posting and searching for ads on all real estate websites and portals in Ukraine, CIS countries and Europe	Growth/Expansion	\$500,000	25%	May 2020
Liber Project: IT project to develop a service to book tables in the restaurants of Kharkov and other cities of Ukraine and Europe	Startup/Seed	\$200,000	20%	April 2020

**O.R. 1l**

- **Further integrate models such as online investment platforms into official sources** – connecting investors with investment opportunities and facilitating this relationship-building can serve as a low-cost means of increasing FDI in Ukraine.

**O.R. 2k**

- **Use online platforms to easily peruse investment opportunities in Ukraine** – resources such as those provided by Inventure Investment Group to easily see what opportunities exist in Ukraine at no cost and with no travel required.

It is important to note what the interests of investors in Ukraine have been in the venture capital and IT sectors. UVCA conducted a survey in February 2020 that gives some very useful insights into how to further attract investment in the IT sphere. According to their survey, 81% of investors consider that there are not enough startups in Ukraine, indicating further market growth potential.<sup>109</sup> They also note that 83% of investors were expecting new private equity (PE) and venture capital (VC) funds to emerge in Ukraine in 2020 (50% stating that PE will increase and 69% stating that VC will increase).<sup>110</sup> While COVID-19 may have slowed the pace of investment temporarily, the growth potential will still remain in Ukraine’s IT sector. It will be important for the sector to focus its attention on those areas that are most attractive to investors. According to the survey, the top five areas of interest for VC and PE funds are Artificial Intelligence, Big Data Analytics, Health, Virtual Reality and FinTech & Blockchain.<sup>111</sup> To better understand the decision-making processes of potential investors, Figure 66 summarizes the results of the most important metrics for making an investment decision from the February 2020 survey. These results are also compared with the results from their 2018 report to show changes in investor priorities.

**O.R. 1m**

- **Use survey results to focus on companies working on key technologies** – investors indicated that AI, Big Data Analytics, health, VR and FinTech are among the key priorities in the technology space. Having these insights can assist where policies (such as the “IT Creative Fund”) can focus funding.

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<sup>109</sup> Id. 105

<sup>110</sup> Ibid.

<sup>111</sup> Ibid.

**Figure 66**



Interestingly, according to the survey, team cooperation and capabilities is well and ahead the most important decision-making metric for investors. This echoes the observation by Christoph Janz that, “The biggest challenge for founders in young ecosystems is recruiting experienced people in non-technical areas that have been trained at world-class companies.”<sup>112</sup> Hence, the IT sector should work on recruiting top talent from both technical and non-technical areas (such as human resources, management and marketing). While investment inflows may have slowed down temporarily due to COVID, Ukrainian IT companies should focus their efforts on building capacities in these areas.

**O.R. 1n**

- **Ukrainian tech companies should focus on building non-technical skill capacity—** while not intuitive, this is an important element for potential foreign investors.

<sup>112</sup> Christoph Janz, “Will Kyiv Become a Unicorn Factory?” Medium. May 14, 2019. <<https://medium.com/nine-news/will-kyiv-become-a-unicorn-factory-fbc74451ce54>>

## O.R. 21

- **Assist in recruitment efforts for non-technical skill capacity building in the Ukrainian technology sector** – this is one specific area where business development services (a main U.S. service export to Ukraine) can be strategically focused.

To conclude, there are a number of areas in Ukraine’s legislative framework that will have an impact on the IT sector. One of the advantages offered to foreign investors in the IT sector in particular is Ukraine’s tax policy. As Vitalii Rybak notes, “Ukrainian tax legislation allows companies to work with self-employed specialists who pay only a single tax—5 percent of their income—and a monthly unified social tax, which is 22 percent of the minimum wage, or 819 hryvnias (\$31). This allows both companies and IT specialists to maximize their income.”<sup>113</sup> There are several important regulations that are on the horizon that will specifically affect the IT sector. On July 16, 2019, Ukraine passed what is known as the “Language Law”, requiring the use of Ukrainian in official capacities and in several other areas. With regard to the IT sector, the UVCA writes that “most of the IT related provisions will become effective starting in 2022, giving IT companies time to get prepared for requirements. Among those is a requirement to have Ukrainian versions for user interfaces, software, web pages and mobile applications of state and municipal authorities as well as companies marketing their goods and services in Ukraine.”<sup>114</sup>

One final important law is the December 6, 2019 Law of Ukraine “On Preventing and Counteracting the Legalization (Laundering) of Proceeds of Crime, Financing Terrorism and Financing the Proliferation of Weapons of Mass Destruction” (Law No. 361-IX)<sup>115</sup>. This law was drafted to bring Ukraine into alignment with the Financial Action Task Force’s (FATF)

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<sup>113</sup> Id 77

<sup>114</sup> Id 110

<sup>115</sup> “Law of Ukraine No. 361-IX” December 6, 2019 <<https://cis-legislation.com/document.fwx?rgn=122255>>

recommendations on anti-money laundering and anti-corruption. While this law implements a number of important regulations that will improve the overall transparency and predictability of the business climate, it directly affected the FinTech and virtual asset/cryptocurrency space in a positive way. Following FATF Recommendation 15 (on “New Technologies”), the law introduced legal definitions and standards allowing cryptocurrencies to be used for payments and investments. The Ministry of Digital Transformation of Ukraine actually worked with major cryptocurrency exchange, Binance, under a memorandum of understanding to draft the law. As CEO of Binance, Changpeng Zhao stated in November 2019, “the legalization of cryptocurrencies and the adoption of progressive legislation can play a key role in bringing positive growth in the economy as well as attract additional investments.”<sup>116</sup> The government also allocated \$18 million dollars in grants to startups in innovative sectors of the economy including the blockchain industry.<sup>117</sup> This is excellent news considering that FinTech and Blockchain technologies were among the top five areas of interest for investors. Both Ukrainian firms and potential foreign investors should keep a vigilant eye on ways in which Ukraine’s regulatory and legislative environment can open up further investment opportunities in the country.

**O.R. 1o**

- **Assist U.S. companies and investors navigate Ukrainian regulation and proactively promote potentially beneficial changes** – there are a number of changes in the regulatory landscape that U.S. businesses and investors should be made aware of.

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<sup>116</sup> Joeri Cant, “Ukraine Passes Law on Money Laundering with Crypto Policy Based on FATF”. Coin Telegraph. December 7, 2019 <<https://cointelegraph.com/news/ukraine-passes-law-on-money-laundering-with-crypto-policy-based-on-fatf>>

<sup>117</sup> Lubomir Tassev, “New Ukrainian Law Says ‘Virtual Assets’ Can Be Used for Payments”. Bitcoin.com. December 8, 2019 <<https://news.bitcoin.com/new-ukrainian-law-says-virtual-assets-can-be-used-for-payments/>>

### ***1.3 Market Analysis and Incentives for Ukraine to Enter U.S. Markets***

Given the vast size and complexity of the U.S. market, this section will be broken down into two primary categories. First, it will seek to give a picture of the overall trade trends of Ukrainian goods within the American market. By assessing where the trade of goods has flowed into the American market by state, it can give a sense of where Ukrainian exporters can focus their marketing and sales endeavors as well as where Ukrainian government officials can target their efforts to further export promotion to the U.S. This section will also give a summary of trade trends in 12 select U.S. states in the Western region of the country, with California being the primary focus of this study as it is the largest economy among those selected. Whereas the first section will not home in on particular sectors or industries, the latter part will assess strategies for the four industries of interest: IT, agriculture, energy and aerospace. It will conclude with some general strategies for U.S. market entry in the context of Ukrainian-American bilateral trade.

While the flow of imports of goods from Ukraine into the United States market continued to fall after 2010 due to macroeconomic factors and the conflict in the east of Ukraine in 2014, it has rebounded significantly and is almost back to its peak levels (Figure 67).<sup>118</sup> The value of Ukrainian imports in 2019 was \$1.295 billion, an increase of 52% from 2015 import levels. The most recent data of Ukrainian imports shows that imports were down approximately 28% in the first quarter of 2020 (\$262,250,638) versus the first quarter of 2019 (\$364,099,582). However, this disruption is not surprising given the impact that COVID-19 began to have on the international trade system even before the end of the first quarter of 2020.<sup>119</sup>

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<sup>118</sup> International Trade Administration, "TradeStats Express" <<http://tse.export.gov/>>

<sup>119</sup> Ibid.

**Figure 67**



When assessing flows of Ukrainian goods into the U.S. market that have occurred, it is informative to understand overall and regional demand trends. General patterns in consumer spending in the United States have increased steadily since 2000, with 2018 levels estimated at \$16,130 per capita.<sup>120</sup> Per capita spending by American consumers in 2018 was at 109% and 104% of the 2015 and 2017 levels respectively, indicating increasing demand on the consumer level. With regard to demand by business entities, demand for total foreign imports by all types of companies grew 7% between 2017 and 2018.<sup>121</sup> To get a sense of where Ukrainian goods have flown in this context by geographic region, Figures 68 – 74 will show changes in import value and imports by type for the six regions of the United States (Pacific, Mountain, South Central, North Central, Mid-Atlantic, South Atlantic and New England regions). Figure 75 will then breakdown Ukrainian trade flows in detail by U.S. state and territory.

<sup>120</sup> United States Census Bureau, “Economic Indicators” <<https://www.census.gov/economic-indicators/>>

<sup>121</sup> Ibid.

<b>Figure 68 – Ukrainian Imports to U.S. Pacific Region</b> (California, Washington, Oregon, Alaska, Hawaii)					
<b>USD Value of Imports (2019)</b>	<b>USD Value of Imports (2018)</b>	<b>% Change (2018 – 2019)</b>	<b>USD Value of Imports (Q1 2020)</b>	<b>USD Value of Imports (Q1 2019)</b>	<b>Top 3 Import Categories and share of Regional Imports – NAICS (2019)</b>
\$65,412,221	\$58,273,932	+12%	\$18,796,869	\$14,680,044	1) 311 - Food Manufactures (41%) 2) 331 – Primary Metal MFG (9.2%) 3) 111 – Agricultural Products (7.2%)

<b>Figure 69 – Ukrainian Imports to U.S. Mountain Region</b> (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming)					
<b>USD Value of Imports (2019)</b>	<b>USD Value of Imports (2018)</b>	<b>% Change (2018 – 2019)</b>	<b>USD Value of Imports (Q1 2020)</b>	<b>USD Value of Imports (Q1 2019)</b>	<b>Top 3 Import Categories and share of Regional Imports – NAICS (2019)</b>
\$17,417,740	\$9,808,348	+76%	\$3,174,133	\$2,731,608	1) 334 – Computers & Electronic Products (28.3%) 2) 314 – Textile Mills Products (15.5%) 3) 333 – Machinery, Except Electrical (15.2%)

<b>Figure 70 – Ukrainian Imports to U.S. South Central Region</b> (Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas)					
<b>USD Value of Imports (2019)</b>	<b>USD Value of Imports (2018)</b>	<b>% Change (2018 – 2019)</b>	<b>USD Value of Imports (Q1 2020)</b>	<b>USD Value of Imports (Q1 2019)</b>	<b>Top 3 Import Categories and share of Regional Imports – NAICS (2019)</b>
\$310,184,583	\$457,607,612	-32%	\$52,033,156	\$86,606,713	1) 331 – Primary Metal MFG (74.2%) 2) 334 – Computer & Electronic Products (5.1%) 3) 111 – Agricultural Products (4.7%)



**Figure 71 – Ukrainian Imports to U.S. North Central Region** (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)

USD Value of Imports (2019)	USD Value of Imports (2018)	% Change (2018 – 2019)	USD Value of Imports (Q1 2020)	USD Value of Imports (Q1 2019)	Top 3 Import Categories and share of Regional Imports – NAICS (2019)
\$526,447,107	\$564,336,689	-7%	\$116,338,950	\$170,509,864	1) 331 – Primary Metal MFG (90%) 2) 335 – Electrical Equipment, Appliances & Components (2.7%) 3) 315 – Apparel Manufacturing Products (1.3%)

**Figure 72 – Ukrainian Imports to U.S. Mid-Atlantic Region** (New Jersey, New York, Pennsylvania)

USD Value of Imports (2019)	USD Value of Imports (2018)	% Change (2018 – 2019)	USD Value of Imports (Q1 2020)	USD Value of Imports (Q1 2019)	Top 3 Import Categories and share of Regional Imports – NAICS (2019)
\$181,139,779	\$126,478,849	+43%	\$31,775,181	\$44,120,883	1) 311 – Food Manufactures (26.1%) 2) 331 – Primary Metal MFG (14.9%) 3) 339 – Misc. Manufactured Commodities (11%)

**Figure 73 – Ukrainian Imports to U.S. South Atlantic Region** (Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, Washington, D.C.)

USD Value of Imports (2019)	USD Value of Imports (2018)	% Change (2018 – 2019)	USD Value of Imports (Q1 2020)	USD Value of Imports (Q1 2019)	Top 3 Import Categories and share of Regional Imports – NAICS (2019)
\$163,055,716	\$111,313,681	+46%	\$30,010,275	\$37,835,604	1) 314 – Textile Mills Products (18.9%) 2) 990 – Special Classification Provisions (13.7%) 3) 336 – Transportation Equipment (11.2%)

<b>Figure 74 – Ukrainian Imports to U.S. New England Region</b> (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont)					
<b>USD Value of Imports (2019)</b>	<b>USD Value of Imports (2018)</b>	<b>% Change (2018 – 2019)</b>	<b>USD Value of Imports (Q1 2020)</b>	<b>USD Value of Imports (Q1 2019)</b>	<b>Top 3 Import Categories and share of Regional Imports – NAICS (2019)</b>
\$19,881,827	\$14,160,088	+40%	\$6,535,357	\$5,549,125	1) 311 – Food Manufactures (52.7%) 2) 339 – Misc. Manufactured Commodities (25.2%) 3) 334 – Computer & Electronic Products (9.3%)

As can be seen by the above data, each region of the United States has certain sectors toward which the level of Ukrainian imports, and by extension demand, tilt. For instance, food manufactures and manufactured commodities weigh heavily in the import profile to the New England region (77.9% combined), whereas primary metal imports compose nearly all of the import profile to the U.S. North Central region (90%). By having a better sense of the import profiles to specific regions, Ukrainian authorities supporting export promotion to focus their efforts on particular sectors in the various regions of the U.S. when seeking to build and facilitate bilateral trade relationships. Furthermore, Ukrainian manufacturers and exporters may have a better sense of the market trends in certain geographic regions of the United States, allowing for more precise marketing strategies. This analysis will be extended on a state-by-state basis in Figure 75 below. Figure 75 provides information on the top importing U.S. states by import value as well as the top 2 import categories for each state. This will allow for greater strategy in policy and marketing efforts.

**O.R. 1p**

- **Assess Ukrainian import trends into the U.S. disaggregated by region** – this will allow for greater precision when promoting Ukrainian goods abroad in both the public and private sectors.

**Figure 75 – U.S. State-by-State Import Profile from Ukraine by Value and Category**

State	Total Import Value 2019	% of Total	% Change 2018	Total Import Value Q1 2020	Total Import Value Q1 2019	#1 Import Category (2019)	#2 Import Category (2019)
US Total	\$1,295,787,249	100%	-4.2%	\$262,250,638	\$364,099,582	Primary Metal MFG (58.6%)	Food Manufactures (7.5%)
Ohio	\$453,797,279	35.02%	-3.4%	\$68,618,497	\$152,162,865	Primary Metal MFG (96.4%)	Apparel Manufactured Products (1.4%)
Texas	\$211,544,394	16.33%	32.8%	\$19,681,218	\$65,842,227	Primary Metal MFG (82.8%)	Computer & Electronic Products (4.4%)
New York	\$72,834,235	5.62%	40.6%	\$15,370,875	\$20,530,734	Misc. Manufactured Commodities (18.8%)	Food Manufactures (18.3%)
New Jersey	\$66,814,619	5.16%	79.7%	\$10,643,321	\$13,485,505	Food Manufactures (41%)	Misc. Manufactured Commodities (9.2%)
Virginia	\$60,411,503	4.66%	31.0%	\$3,464,957	\$7,517,434	Textile Mills Products (40.1%)	Special Classification Provisions (37.1%)
California	\$58,872,919	4.54%	9.7%	\$17,522,561	\$13,730,667	Food Manufactures (44.9%)	Primary Metal MFG (9.7%)
Mississippi	\$57,571,298	4.44%	-77.3%	\$16,200,572	\$4,128,185	Primary Metal MFG (92.6%)	Minerals & Ores (7.1%)
Illinois	\$41,597,373	3.21%	-15.9%	\$42,876,376	\$11,636,886	Primary Metal MFG (64.6%)	Electrical Equipment, Appliances & Components (7.3%)
Pennsylvania	\$41,490,925	3.20%	10.6%	\$5,760,985	\$10,104,644	Primary Metal MFG (47.5%)	Food Manufactures (15.8%)
Louisiana	\$23,701,943	1.83%	-17.0%	\$11,165,897	\$10,285,657	Agricultural Products (61.2%)	Minerals & Ores (24%)
Florida	\$22,373,224	1.73%	53.0%	\$6,032,474	\$5,322,794	Electrical Equipment, Appliances & Components (34.3%)	Machinery, Except Electrical (10.2%)
Georgia	\$21,161,477	1.63%	47.8%	\$4,081,206	\$4,590,382	Chemicals (39.9%)	Primary Metal MFG (17.3%)
South Carolina	\$20,739,022	1.60%	16.9%	\$6,817,912	\$4,655,498	Transportation Equipment (46.1%)	Textile Mills Products (14.1%)
North Carolina	\$18,006,645	1.39%	199.3%	\$3,409,677	\$9,227,221	Agricultural Products (42.8%)	Transportation Equipment (27.2%)

Maryland	\$15,143,462	1.17%	23.4%	\$1,647,524	\$6,470,896	Primary Metal MFG (74.7%)	Transportation Equipment (10.6%)
Massachusetts	\$12,816,726	0.99%	91.1%	\$3,292,580	\$4,453,584	Food Manufactures (78.5%)	Computer & Electronic Products (13.3%)
Utah	\$10,379,722	0.80%	110.3%	\$1,796,142	\$614,350	Computer & Electronic Products (46.2%)	Textile Mills Products (26.1%)
Indiana	\$9,744,337	0.75%	-29.8%	\$381,091	\$1,253,597	Primary Metal MFG (49.5%)	Electrical Equipment, Appliances & Components (40.3%)
Michigan	\$5,979,022	0.46%	-54.4%	\$226,591	\$1,989,646	Primary Metal MFG (52.4%)	Other Animals (24.1%)
Kentucky	\$5,897,751	0.46%	145.6%	\$1,391,512	\$2,102,121	Computer & Electronic Products (74.8%)	Fabricated Metal Products (12.5%)
New Hampshire	\$5,213,240	0.40%	-7.2%	\$343,514	\$752,734	Misc. Manufactured Commodities (92%)	Machinery, Except Electrical (5.7%)
Delaware	\$5,154,568	0.40%	2896.2%	\$4,547,311	\$46,088	Minerals & Ores (86.7%)	Used or Second-Hand Merchandise (9%)
Alabama	\$4,547,536	0.35%	-14.8%	\$933,191	\$2,184,492	Primary Metal MFG (33.9%)	Computer & Electronic Products (23.4%)
Tennessee	\$4,111,605	0.32%	30.0%	\$1,079,217	\$1,183,579	Electrical Equipment, Appliances & Components (26.6%)	Machinery, Except Electrical (21.3%)
Puerto Rico	\$4,108,364	0.32%	85.0%	\$742,000	\$171,932	Petroleum & Coal Products (69.7%)	Plastics & Rubber Products (17.9%)
Minnesota	\$4,019,971	0.31%	26.8%	\$653,868	\$300,040	Transportation Equipment (30.1%)	Other Animals (23.7%)
Arizona	\$3,885,330	0.30%	45.0%	\$1,032,369	\$911,007	Machinery, Except Electrical (51%)	Chemicals (33.3%)
Missouri	\$3,396,342	0.26%	-28.3%	\$496,206	\$1,126,267	Machinery, Except Electrical (28.7%)	Fabricated Metal Products (19.6%)
Oregon	\$2,793,030	0.22%	5.7%	\$647,322	\$603,668	Other Animals (78.2%)	Food Manufactures (5.6%)
Wisconsin	\$2,715,446	0.21%	-29.0%	\$2,297,847	\$823,740	Primary Metal MFG (54%)	Chemicals (13.1%)

Washington	\$2,269,509	0.18%	22.7%	\$606,228	\$294,783	Apparel Manufacturing Products (29.5%)	Other Animals (15.3%)
Nebraska	\$2,028,849	0.16%	-40.7%	\$237,960	\$593,580	Transportation Equipment (96%)	Machinery, Except Electrical (2.5%)
Oklahoma	\$1,883,087	0.15%	-36.7%	\$1,338,469	\$594,385	(980) US Goods Ret. & Reimports (50.5%)	Computer & Electronic Products (42.6%)
Connecticut	\$1,635,871	0.13%	-2.2%	\$2,890,708	\$252,010	Fabricated Metal Products (29.6%)	Food Manufactures (25.4%)
Iowa	\$1,591,327	0.12%	23.0%	\$161,252	\$391,422	Machinery, Except Electrical (70%)	Chemicals (10.3%)
Colorado	\$1,582,033	0.12%	9.2%	\$207,239	\$458,671	Misc. Manufactured Commodities (18.4%)	Used or Second-Hand Merchandise (12.3%)
Kansas	\$1,566,336	0.12%	4.5%	\$375,371	\$231,821	Furniture & Fixtures (69.2%)	Machinery, Except Electrical (21%)
Alaska	\$1,204,744	0.09%	1249.9%	\$3,500	\$7,726	Transportation Equipment (99.2%)	Printed Matter & Related Products (0.6%)
Arkansas	\$926,969	0.07%	-52.2%	\$243,080	\$286,067	Fabricated Metal Products (48%)	Beverages & Tobacco Products (34.7%)
Nevada	\$726,966	0.06%	157.8%	\$54,497	\$568,760	Transportation Equipment (74.9%)	Furniture & Fixtures (6.2%)
Idaho	\$555,531	0.04%	647.4%	\$61,982	\$123,540	Machinery, Except Electrical (88.8%)	Plastics & Rubber Products (7.5%)
Hawaii	\$272,019	0.02%	4290.2%	\$17,258	\$43,200	Furniture & Fixtures (43.2%)	Electrical Equipment, Appliances & Components (16.9%)
Maine	\$155,990	0.01%	62.0%	\$2,196	\$56,423	Textile Mills Products (59.1%)	Apparel Manufacturing Products (22.1%)
Montana	\$106,335	0.01%	-64.3%	\$8,767	\$38,530	Primary Metal MFG (62.1%)	Computer & Electronic Products (30.6%)
Wyoming	\$102,245	0.01%	14.6%	\$2,451	\$0	Transportation Equipment (80.7%)	Machinery, Except Electrical (10.9%)

New Mexico	\$79,578	0.01%	2847.3%	\$10,686	\$16,750	Machinery, Except Electrical (56%)	Apparel Manufacturing Products (21%)
Rhode Island	\$51,973	>0.01%	154.4%	\$6,359	\$29,134	Plastics & Rubber Products (54.7%)	(980) US Goods Ret. & Reimports (38.5%)
District of Columbia	\$50,799	>0.01%	-4.4%	\$9,214	\$2,300	Transportation Equipment (51.1%)	Other Animals (37.4%)
West Virginia	\$15,016	>0.01%	190.1%	\$0	\$2,991	Computer & Electronic Products (51.2%)	Transportation Equipment (24.6%)
North Dakota	\$8,225	>0.01%	N/A	\$13,891	\$0	Misc. Manufactured Commodities (73.5%)	Chemicals (26.5%)
Vermont	\$8,027	>0.01%	-82.9%	\$0	\$5,240	Other Animals (65.3%)	Paper (34.7%)
South Dakota	\$2,600	>0.01%	-97.4%	\$0	\$0	Computer & Electronic Products (100%)	
Virgin Islands	\$0	0.00%	N/A	\$0	\$0	-	-

The above table can act as a preliminary first step for Ukrainian producers and exporters seeking to gain a better understanding of the U.S. markets and the dynamics of Ukrainian goods. The International Trade Administration platform from which this data was sourced (provided in the footnote below)<sup>122</sup> can provide further and specified insights into the general flow and patterns of Ukrainian goods in the American market. For instance, a chemical manufacturer in Ukraine would be able to determine that states such as Georgia and Arizona may be U.S. regions to target with advertising or for future market research. Given their strategic priority, a slightly deeper analysis will be done on twelve western states in the following section. These states are as follows: California, Arizona, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, Wyoming and Utah.

<sup>122</sup> International Trade Administration, “TradeStats Express” <<http://tse.export.gov/>>

### *1.3.1 Market Analysis of 12 Select Western States*

Below is a brief overview of trade between Ukraine and 12 states in the Western region of the U.S. Each figure analyzes the level of bilateral trade between that state and Ukraine from 2010 to 2019, a comparison of the first quarters of 2019 and 2020, the top product import and export categories and global trading partners of comparable size. All data are sourced from the International Trade Administrations TradeStats Express service.<sup>123</sup> A list of ports for each state can be found [here](#).<sup>124</sup>

By analyzing a select amount of import/export data from these twelve states, it is possible to draw inferences that will enable more informed decision-making on the part of public and private sector actors in Ukraine. In having a view of trendlines in bilateral trade over the last ten years, it allows analysts to spot periods in history where there may have been anomalies in the import or export patterns. For instance, when looking at trade between Ukraine and California, there are two major spikes: in imports from Ukraine and in exports from the United States in 2012 and 2018 respectively. In 2012, computer and electronic products sales from California to Ukraine skyrocketed – accounting for 74% of the growth in exports that year. In 2018, exports from Ukraine to California increased 246% with transportation equipment and agricultural products accounting for 52% and 31% of trade growth respectively. This can assist export promoters in reestablishing old trade partnerships and finding examples of best practices in recent history. Furthermore, analyzing trends in recent years can offer insight into demand patterns across these various states as well as insight into which sectors are particularly relevant in each state and which global competitors have a similarly sized footprint in the region.

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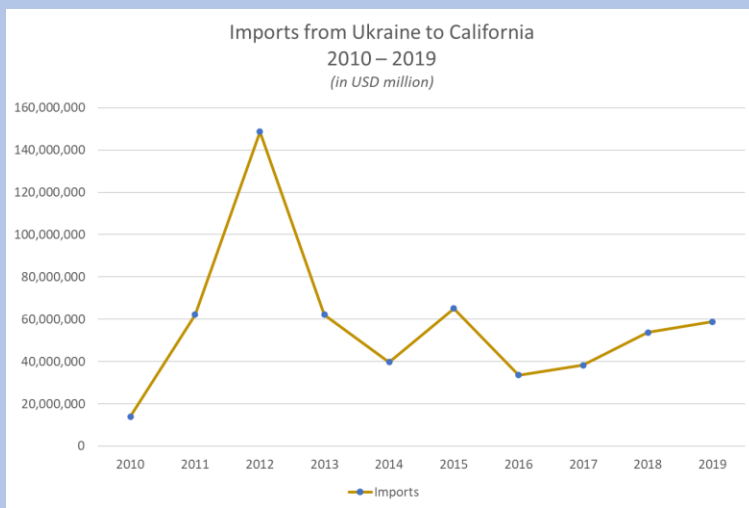
<sup>123</sup> Ibid.

<sup>124</sup> World Port Source, “Port Index” <<http://www.worldportsource.com/ports/index/USA.php>>

**Figure 76 – California – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$383,587,094

**%2017: 287%**

**Total Bilateral 2019**

\$310,143,144

**%2018: 81%**

**Q1 2019 (Bilateral)**

\$13,730,667

**Q1 2020 (Bilateral)**

\$17,522,561

**%Q1 2019: 101%**

**Comparable Trading Partners (2019 Import Levels)**

- Laos (\$61,399,869 )
- Tunisia (\$59,833,866)
- Ukraine (\$58,872,919)
- Oman (\$55,299,005)
- Malta (\$54,747,721)

**Top Imp. from UA (2019)**

1. Food Manufactures (44.9%)
2. Primary Metal MFG (9.7%)
3. Agricultural Products (8%)

**Top Exp. to UA (2019)**

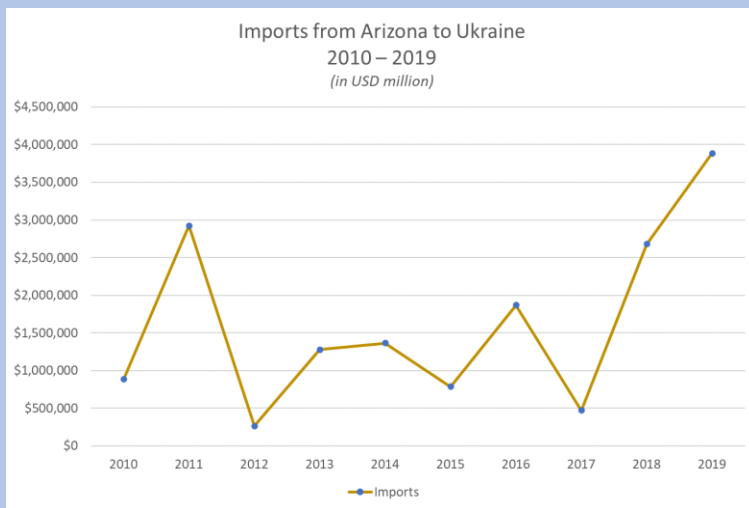
1. Used/Second-Hand Merchandise (51.6%)
2. Agricultural Products (26.3%)
3. Transportation Equipment (8.3%)



**Figure 77 – Arizona – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$7,067,708

**%2017: 225%**

**Total Bilateral 2019**

\$7,768,958

**%2018: 110%**

**Q1 2019 (Bilateral)**

\$1,462,342

**Q1 2020 (Bilateral)**

\$3,882,663

**%Q1 2019: 266%**

**Comparable Trading Partners (2019 Import Levels)**

- Kuwait (\$4,133,543)
- Tunisia (\$4,048,390)
- Ukraine (\$3,885,330)
- Tanzania (\$3,876,259)
- Latvia (\$3,275,192)

**Top Imp. from UA (2019)**

1. Machinery, Except Electrical (51%)
2. Chemicals (33.3%)
3. Fabricated Metal Products (7.4%)

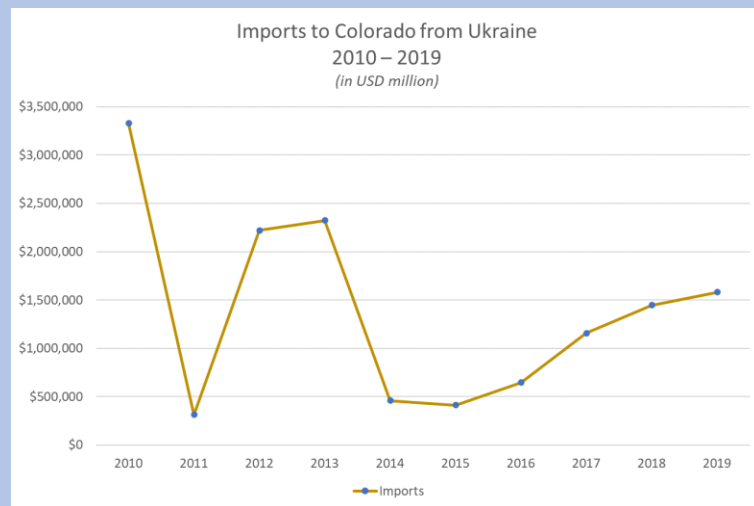
**Top Exp. to UA (2019)**

1. Computer & Electronic Products (30.8%)
2. Transportation Equipment (22.6%)
3. Misc. Manufactured Commodities (18.2%)

**Figure 78 – Colorado – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$9,952,819

**%2017: 358%**

**Total Bilateral 2019**

\$3,629,662

**%2018: 36%**

**Q1 2019 (Bilateral)**

\$914,232

**Q1 2020 (Bilateral)**

\$614,304

**%Q1 2019: 67%**

**Comparable Trading Partners (2019 Import Levels)**

- Kazakhstan (\$1,926,178)
- Myanmar (\$1,722,526)
- Ukraine (\$1,582,033)
- Tunisia (\$1,340,157)
- Ghana (\$1,312,473)

**Top Imp. from UA (2019)**

1. Misc. Manufactured Commodities (18.4%)
2. Used or Second-Hand Merchandise (12.3%)
3. Plastic & Rubber Products (12.1%)

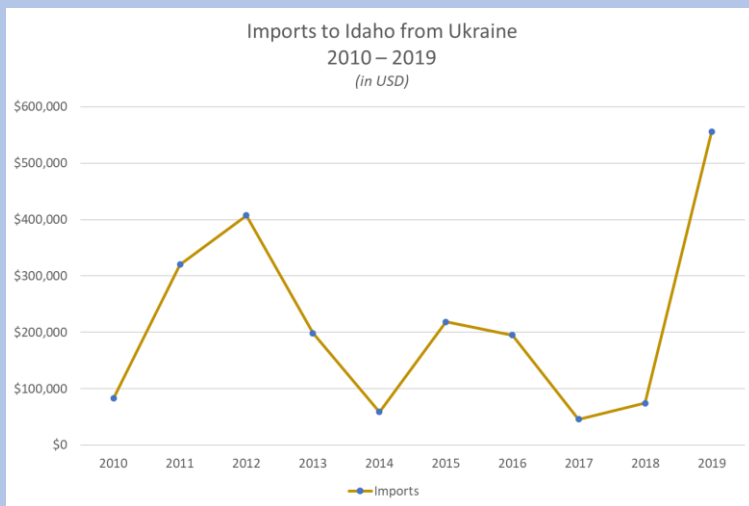
**Top Exp. to UA (2019)**

1. Machinery, Except Electrical (31.3%)
2. Electrical Equipment, Appliances & Components (27.4%)
3. Fabricated Metal Products (11.1%)

**Figure 79 – Idaho – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$747,003

%2017: 92%

**Total Bilateral 2019**

\$3,601,267

%2018: 482%

**Q1 2019 (Bilateral)**

\$250,504

**Q1 2020 (Bilateral)**

\$506,894

%Q1 2019: 202%

**Comparable Trading Partners (2019 Import Levels)**

- Lithuania (\$656,896)
- Nicaragua (\$620,276)
- Ukraine (\$555,531)
- Uganda (\$533,681)
- Uzbekistan (\$421,500)

**Top Imp. from UA (2019)**

1. Machinery, Except Electrical (88.8%)
2. Plastic & Rubber Products (7.5%)
3. Computers & Electronic Products (3.5%)

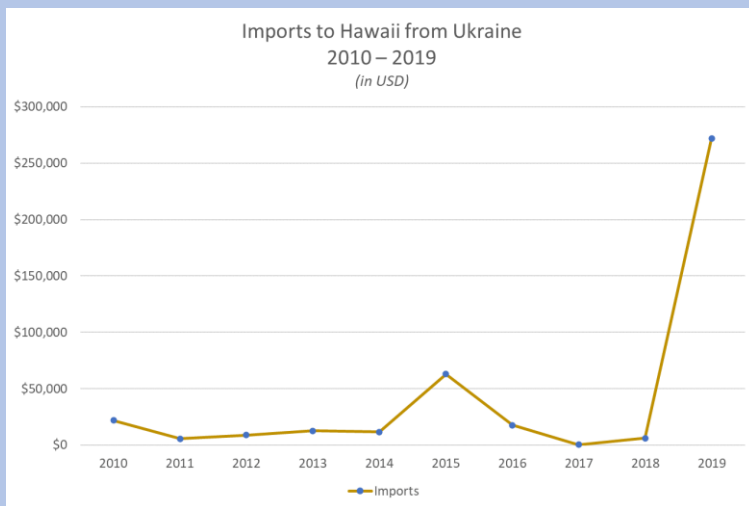
**Top Exp. to UA (2019)**

1. Transportation Equipment (59.6%)
2. Machinery, Except Electrical (24.3%)
3. Chemicals (7.3%)

**Figure 80 – Hawaii – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$6,196

%2017: 2295%

**Total Bilateral 2019**

\$394,593

%2018: 6369%

**Q1 2019 (Bilateral)**

\$43,200

**Q1 2020 (Bilateral)**

\$17,258

%Q1 2019: 40%

**Comparable Trading Partners (2019 Import Levels)**

- Greece (\$295,855)
- Monaco (\$294,980)
- Ukraine (\$272,019)
- Seychelles (\$265,059)
- United Arab Emirates (\$249,356)

**Top Imp. from UA (2019)**

1. Furniture & Fixtures (43.2%)
2. Electronic Equipment, Appliances & Components (16.9%)
3. Machinery, Except Electrical (15.9%)

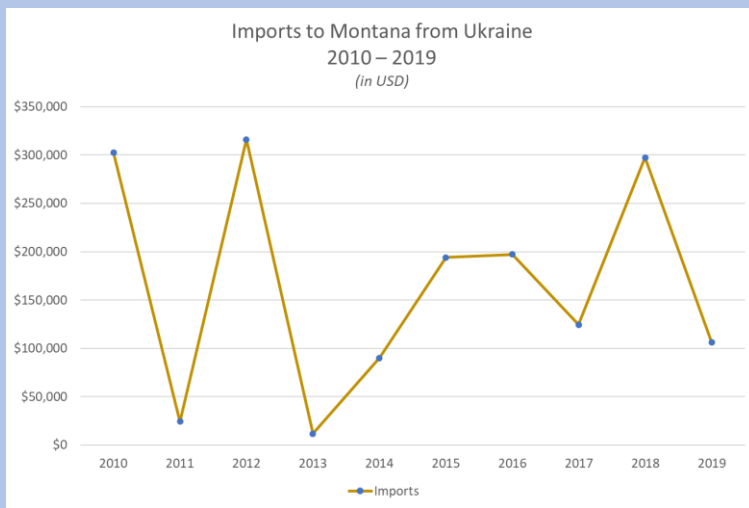
**Top Exp. to UA (2019)**

1. Transportation Equipment (100%)
2. N/A
3. N/A

**Figure 81 – Montana – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$807,070

**%2017:** 162%

**Total Bilateral 2019**

\$114,755

**%2018:** 14%

**Q1 2019 (Bilateral)**

\$38,530

**Q1 2020 (Bilateral)**

\$31,649

**%Q1 2019:** 82%

**Comparable Trading Partners (2019 Import Levels)**

- Bosnia & Herzegovina (\$131,731)
- Colombia (\$126,337)
- Ukraine (\$106,335)
- Slovenia (\$94,479)
- Monaco (\$86,860)

**Top Imp. from UA (2019)**

1. Primary Metal MFG (62.1%)
2. Computer & Electronic Products (30.6%)
3. Misc. Manufactured Commodities (7.3%)

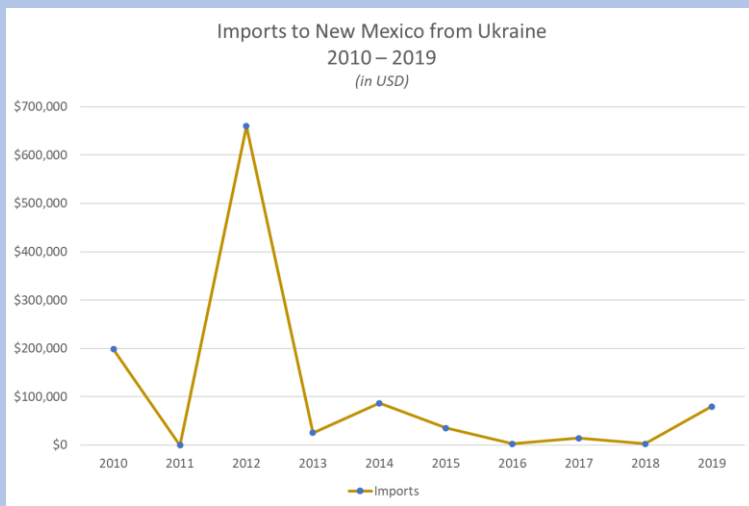
**Top Exp. to UA (2019)**

1. Chemicals (61.5%)
2. Machinery, Except Electrical (38.5%)
3. N/A

**Figure 82 – New Mexico – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$641,968

%2017: 56%

**Total Bilateral 2019**

\$1,531,740

%2018: 239%

**Q1 2019 (Bilateral)**

\$57,093

**Q1 2020 (Bilateral)**

\$229,048

%Q1 2019: 401%

**Comparable Trading Partners (2019 Import Levels)**

- Colombia (\$83,971)
- Nepal (\$80,142)
- Ukraine (\$79,578)
- Greece (\$76,034)
- Malta (\$73,402)

**Top Imp. from UA (2019)**

1. Machinery, Except Electrical (56%)
2. Apparel Manufacturing Products (21%)
3. Transportation Equipment (15.4%)

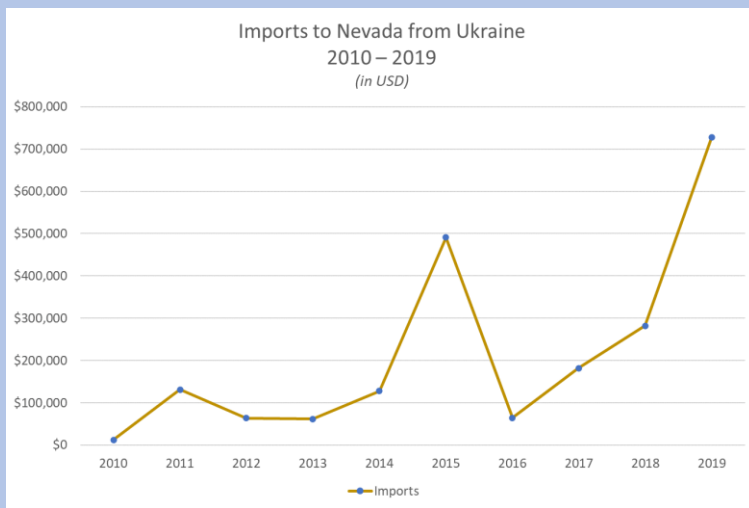
**Top Exp. to UA (2019)**

1. Textile Mills Products (32.9%)
2. Plastics & Rubber Products (19.5%)
3. Machinery, Except Electrical (14.3%)

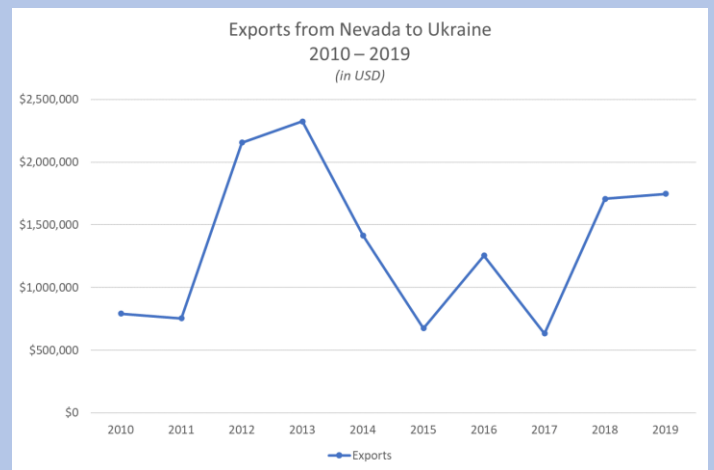
**Figure 83 – Nevada – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$1,989,131

%2017: 244%

**Total Bilateral 2019**

\$2,474,034

%2018: 124%

**Q1 2019 (Bilateral)**

\$854,733

**Q1 2020 (Bilateral)**

\$509,711

%Q1 2019: 60%

**Comparable Trading Partners (2019 Import Levels)**

- Argentina (\$781,632)
- French Polynesia (\$767,736)
- Ukraine (\$726,966)
- Sierra Leone (\$597,286)
- Ethiopia (\$543,812)

**Top Imp. from UA (2019)**

1. Transportation Equipment (74.9%)
2. Furniture & Fixtures (6.2%)
3. Minerals & Ores (4.7%)

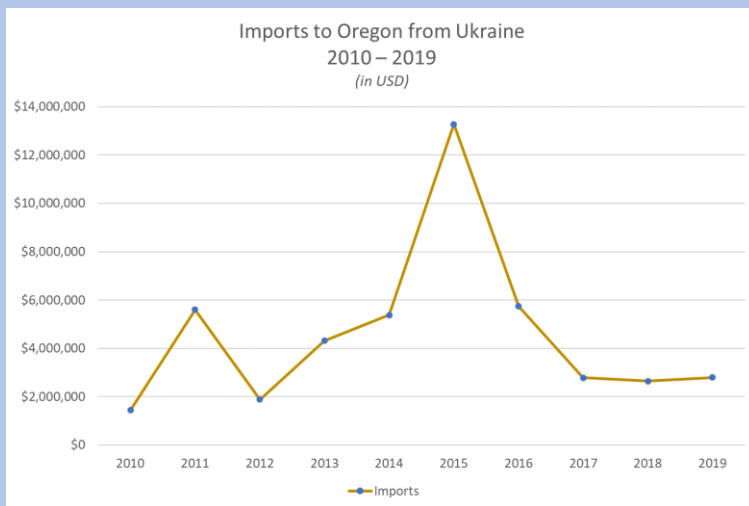
**Top Exp. to UA (2019)**

1. Chemicals (24.4%)
2. Used or Second-Hand Merchandise (17%)
3. Computer & Electronic Products (12.3%)

**Figure 84 – Oregon – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$11,193,040

**%2017: 95%**

**Total Bilateral 2019**

\$11,715,222

**%2018: 105%**

**Q1 2019 (Bilateral)**

\$1,970,196

**Q1 2020 (Bilateral)**

\$2,105,055

**%Q1 2019: 107%**

**Comparable Trading Partners (2019 Import Levels)**

- Jordan (\$3,597,729)
- Trinidad & Tobago (\$3,138,596)
- Ukraine (\$2,793,030)
- Liechtenstein (\$2,518,944)
- Lithuania (\$2,367,713)

**Top Imp. from UA (2019)**

1. Other Animals (78.2%)
2. Food Manufactures (5.6%)
3. Transportation Equipment (3.9%)

**Top Exp. to UA (2019)**

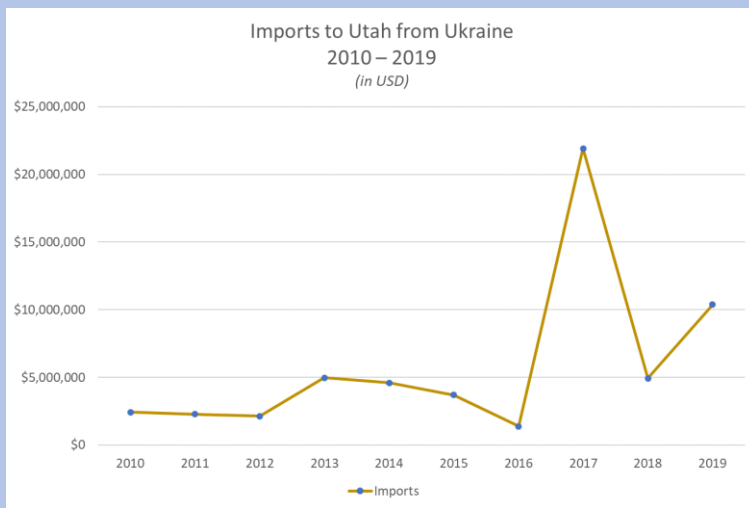
1. Fish, Fresh/Chilled/Frozen & Other Marine Product (40%)
2. Machinery, Except Electrical (19%)
3. Computer & Electronic Products (12.1%)



**Figure 85 – Utah – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$10,472,295

**%2017: 40%**

**Total Bilateral 2019**

\$19,277,840

**%2018: 184%**

**Q1 2019 (Bilateral)**

\$3,019,337

**Q1 2020 (Bilateral)**

\$3,054,987

**%Q1 2019: 101%**

**Comparable Trading Partners (2019 Import Levels)**

- Lithuania (\$12,350,770)
- Kenya (\$10,414,245)
- Ukraine (\$10,379,722)
- Pakistan (\$9,889,662)
- Kuwait (\$9,761,741)

**Top Imp. from UA (2019)**

1. Computer & Electronic Products (46.2%)
2. Textile Mills Products (26.1%)
3. Misc. Manufactured Commodities (13%)

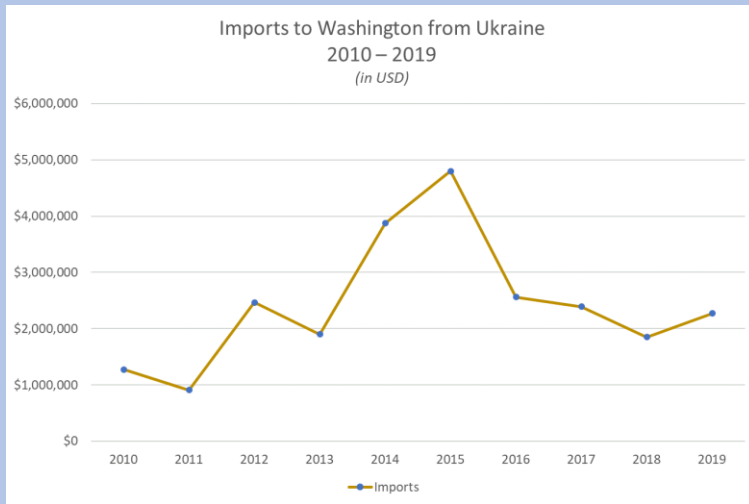
**Top Exp. to UA (2019)**

1. Food Manufactures (38.9%)
2. Computer & Electronic Products (28%)
3. Misc. Manufactured Commodities (15.7%)

**Figure 86 – Washington – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$207,264,538

%2017: 137%

**Total Bilateral 2019**

\$68,429,102

%2018: 33%

**Q1 2019 (Bilateral)**

\$6,059,787

**Q1 2020 (Bilateral)**

\$13,692,313

%Q1 2019: 226%

**Comparable Trading Partners (2019 Import Levels)**

- |            |               |
|------------|---------------|
| • Paraguay | (\$2,369,398) |
| • Croatia  | (\$2,313,700) |
| • Ukraine  | (\$2,269,509) |
| • Bolivia  | (\$1,980,418) |
| • Jordan   | (\$1,784,856) |

**Top Imp. from UA (2019)**

1. Apparel Manufacturing Products (29.5%)
2. Other Animals (15.3%)
3. Primary Metal MFG (11.4%)

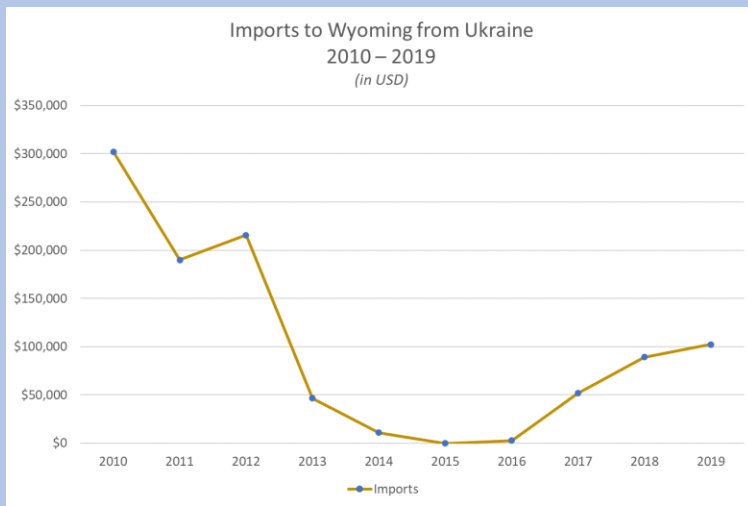
**Top Exp. to UA (2019)**

1. Fish, Fresh/Chilled/Frozen & Other Marine Product (71.5%)
2. Used or Second-Hand Merchandise (13.5%)
3. Computer & Electronic Products (4.3%)

**Figure 87 – Wyoming – Ukraine Trade Analysis**



**Imports**



**Exports**



**Total Bilateral 2018**

\$278,181

%2017: 153%

**Total Bilateral 2019**

\$503,759

%2018: 181%

**Q1 2019 (Bilateral)**

\$222,055

**Q1 2020 (Bilateral)**

\$211,514

%Q1 2019: 95%

**Comparable Trading Partners (2019 Import Levels)**

- |             |             |
|-------------|-------------|
| • Kenya     | (\$109,631) |
| • Ireland   | (\$103,013) |
| • Ukraine   | (\$102,245) |
| • Lithuania | (\$79,989)  |
| • Nepal     | (\$72,419)  |

**Top Imp. from UA (2019)**

1. Transportation Equipment (80.7%)
2. Machinery, Except Electrical (10.9%)
3. Computer & Electronic Products (8.5%)

**Top Exp. to UA (2019)**

1. Fabricated Metal Products, nesoi (53.4%)
2. Used or Second-Hand Merchandise (19.9%)
3. Computer & Electronic Products (19.3%)

### 1.3.2 General Entry Strategies & Recommendations

There are several key elements in developing a market entry strategy for the United States. The Swedish-American Chamber of Commerce lays out six succinct steps for planning entry into the U.S. market and promoting exports of goods and services therein<sup>125</sup>:

1. Finding a micro market
2. Raising capital for investment
3. Developing a strategic market-entry plan
4. Understanding customs, tariffs and laws on foreign investment
5. Intellectual Property Rights, Contracts and Agreements
6. Joining a Relevant Organization (such as the [U.S.-Ukraine Business Council](#)<sup>126</sup> or the [American Chamber of Commerce in Ukraine](#)<sup>127</sup>).

These recommendations are universal and are applicable in any international context. This guide as a whole seeks to assist interested parties in establishing trade partnerships between Ukraine and the United States through these steps. This section will seek to illustrate how those in the Ukrainian public and private sectors can utilize a simple tool to help survey for micro markets and create a preliminary market entry strategy with regard to their particular product or sector. Further recommendations on general market entry strategies are provided by the Canadian organization TradeStart and summarized in Figure 88.<sup>128</sup>

<b>Figure 88 – TradeStart Market Entry Strategies</b>	
Direct Exporting	<i>“Direct exporting is selling directly into the market you have chosen using in the first instance you own resources. Many companies, once they have established a sales program turn to agents and/or distributors to represent them further in that market. Agents and distributors work closely with you in representing your interests. They become the face of your company and thus it is important that your choice of agents and distributors is handled in much the same way you would hire a key staff person.”</i>

<sup>125</sup> The Swedish-American Chambers of Commerce., “U.S. Market Entry Guide” <<https://www.sacc-usa.org/export-guides/doing-business-in-us/us-market-entry-guide/>>

<sup>126</sup> U.S.-Ukraine Business Council <<https://www.usubc.org/>>

<sup>127</sup> American Chamber of Commerce Ukraine <<https://chamber.ua/>>

<sup>128</sup> Tradestart.ca <<http://www.tradestart.ca/market-entry-strategies>>

Licensing	<i>“Licensing is a relatively sophisticated arrangement where a firm transfers the rights to the use of a product or service to another firm. It is a particularly useful strategy if the purchaser of the license has a relatively large market share in the market you want to enter. Licenses can be for marketing or production. licensing).”</i>
Franchising	<i>“Franchising works well for firms that have a repeatable business model (eg. food outlets) that can be easily transferred into other markets.”</i>
Partnering	<i>“Partnering can take a variety of forms from a simple co-marketing arrangement to a sophisticated strategic alliance for manufacturing. Partnering is a particularly useful strategy in those markets where the culture, both business and social, is substantively different than your own as local partners bring local market knowledge, contacts and if chosen wisely customers.”</i>
Joint Ventures	<i>“Joint ventures are a particular form of partnership that involves the creation of a third independently managed company. It is the 1+1=3 process. Two companies agree to work together in a particular market, either geographic or product, and create a third company to undertake this. Risks and profits are normally shared equally.”</i>
Buying a Company	<i>“In some markets buying an existing local company may be the most appropriate entry strategy. This may be because the company has substantial market share, are a direct competitor to you or due to government regulations this is the only option for your firm to enter the market.”</i>
Piggybacking	<i>“Piggybacking is a particularly unique way of entering the international arena. If you have a particularly interesting and unique product or service that you sell to large domestic firms that are currently involved in foreign markets you may want to approach them to see if your product or service can be included in their inventory for international markets.”</i>
Turnkey Projects	<i>“A turnkey project is where the facility is built from the ground up and turned over to the client ready to go – turn the key and the plant is operational.”</i>
Greenfield Investments	<i>“A greenfield investment is where you buy the land, build the facility and operate the business on an ongoing basis in a foreign market. It is certainly the most costly and holds the highest risk but some markets may require you to undertake the cost and risk due to government regulations, transportation costs, and the ability to access technology or skilled labor”.</i>

### O.R. 1q

- **Understand and make informed use of the various types of market entry strategies** – this will optimize the efficiency of market entry and new opportunities may become visible when viewed through these various lenses.

## *Guide for Preliminary Custom Market Analysis*

One of the most essential components of developing an entry strategy into the American market is understanding where demand for a particular sector or product lies geographically and how trade patterns have changed over time. For example, a Ukrainian manufacturer who is seeking to expand sales of a particular product could use programs such as the DataWeb application<sup>129</sup> from the United States International Trade Commission, which can be of use in tracking specific trade flows and trends. This is also a valuable tool to inform trade policy on by government entities. To give an illustration, a brief product analysis will be done with four of the top U.S. imports from Ukraine in 2019 so as to show the potential benefit of using such a methodology.

The four products that are used as an example were chosen due to their high import rates in terms of dollar value. The fourth, sunflower oil, was chosen for its prominence as a global Ukrainian export and its strategic significance. These products and their HTS codes are as follows:

- Apple juice, unfermented, concentrated, not frozen (2009.79.0020)
- Casing, seamless, oil or gas drilling, iron or nonalloy steel, not threaded or coupled, diameter less than 215.9 mm, wall thickness less than 12.7 mm (7304.29.2010)
- Electric coffee makers except percolator, automatic drip and pump type, domestic (8516.71.0060)
- Sunflower-seed, safflower or cottonseed oil, and their fractions, whether or not refined, but not chemically modified (1512.11.0020 and 1512.19.0020 aggregated)

This is conducted by visiting the U.S. International Trade Commission Dataweb application at <https://dataweb.usitc.gov> and use the data request tool to analyze imports for consumption.

### **O.R. 1r**

- **Make use of DataWeb and similar trade analysis applications** – These free resources can assist manufacturers and sellers in Ukraine create tailored market research for their sector or even specific product.

<sup>129</sup> United States International Trade Commission, DataWeb. <<https://dataweb.usitc.gov/>>

The screenshot shows the homepage of dataweb.usitc.gov. At the top, there is a navigation bar with the site name and a menu icon. Below the header, the site's purpose is stated: "THE PREMIER SOURCE OF FREE U.S. TRADE & TARIFF DATA." A light blue box contains a brief description of the service and a link to "Read more...". Below this, there are three tabs: "Announcements", "System Alerts", and "What's New". The main content area is divided into three columns: "TRADE", "TARIFF", and "CLASSIFICATION". Each column has a brief description and a list of links. A red arrow points to the "Imports For Consumption" link in the TRADE section.

TRADE	TARIFF	CLASSIFICATION
Retrieve U.S. merchandise trade data using the data request tool.	Get past, current, and future U.S. tariff rates in multiple formats.	Find correlations between classification systems and related data.
<ul style="list-style-type: none"> <li>Imports For Consumption</li> <li>Domestic Exports</li> <li>General Imports</li> <li>Total Exports</li> <li>Trade Balance</li> </ul>	<ul style="list-style-type: none"> <li>HTS Search</li> <li>Tariff Database</li> <li>Tariff Annual Data</li> <li>Tariff Programs</li> <li>Future Tariff Rates</li> </ul>	<ul style="list-style-type: none"> <li>Commodity Translation Tool</li> <li>Commodity Description Lookup</li> <li>NAICS System</li> </ul>

It will be necessary to create a free account to access the tool. Once signed up, the data can be requested in a variety of different formats that will allow users to determine specific

For the purposes of illustration, Figures 89 - 92 are short product profiles of these three Ukrainian imports into the United States. The information therein can inform manufacturers, exporters and trade promoters on where U.S. demand may lie and spot potential market opportunities. For instance, understanding which ports of entry have seen significant increases in imports of that specific product can help determine demand by geography. Knowing global competitors of similar market capitalization in terms of import value can assist in identifying best practices or creating competitive marketing strategies. By tailoring reports generated by such data request tools, Ukrainian exporters and policy makers can find data to support their individual efforts. To take an example from the data below, while sunflower oil exports to California remain large in absolute terms, Ukrainian exporters may want to focus on the Midwest which has rapidly growing import rates. Additionally, with apple juice, Ukraine should examine marketing and distribution methods of China or Hungary to look for opportunities to capture further market share.

**Figure 89 – Ukrainian Apple Juice Imports (2009.79.0020): Preliminary Market Analysis**

<b><u>Import Figures</u></b>		<b><u>Import Trends (2010 – 2019)</u></b> <b><u>USD Value</u></b>																							
2019 Imports (USD Value)	\$43,863,189	<table border="1"> <caption>Apple Juice Imports from Ukraine (USD Value)</caption> <thead> <tr> <th>Year</th> <th>USD Value</th> </tr> </thead> <tbody> <tr><td>2010</td><td>\$0</td></tr> <tr><td>2011</td><td>\$0</td></tr> <tr><td>2012</td><td>\$0</td></tr> <tr><td>2013</td><td>\$0</td></tr> <tr><td>2014</td><td>\$0</td></tr> <tr><td>2015</td><td>\$2,000,000</td></tr> <tr><td>2016</td><td>\$5,000,000</td></tr> <tr><td>2017</td><td>\$3,000,000</td></tr> <tr><td>2018</td><td>\$4,000,000</td></tr> <tr><td>2019</td><td>\$44,000,000</td></tr> </tbody> </table>		Year	USD Value	2010	\$0	2011	\$0	2012	\$0	2013	\$0	2014	\$0	2015	\$2,000,000	2016	\$5,000,000	2017	\$3,000,000	2018	\$4,000,000	2019	\$44,000,000
Year	USD Value																								
2010	\$0																								
2011	\$0																								
2012	\$0																								
2013	\$0																								
2014	\$0																								
2015	\$2,000,000																								
2016	\$5,000,000																								
2017	\$3,000,000																								
2018	\$4,000,000																								
2019	\$44,000,000																								
2019 Imports (Quantity)	168,238,104 (liters)																								
2018 Imports (USD Value)	\$4,385,060																								
2018 Imports (Quantity)	17,640,087 (liters)																								
% Change 2018 – 2019 (USD Value)	900%																								
% Change 2018 – 2019 (Quantity)	854%																								
% Change 2015 – 2019 (USD Value)	2188%																								
% Change 2015 – 2019 (Quantity)	2251%																								
<b><u>Top 3 Ports of Entry (2019)</u></b>	<b><u>Top 3 Ports of Entry by 2015 – 2019 % Change</u></b>	<b><u>Q1 2019</u></b>	<b><u>Q1 2020</u></b>																						
1. New York, NY (\$31,695,259) 2. Baltimore, MD (\$5,473,416) 3. Charleston, SC (\$3,229,240)	1. Los Angeles, CA (10667%) 2. New York, NY (3138%) 3. Charleston, SC (1073%)	Value: \$12,566,814  % Change Q1 2018: 34%	Value: \$6,923,924  % Change Q1 2019: -45%																						
<b><u>Global Competitors (2019 Imports: USD Value)</u></b>		<b><u>Top Performing in Product Category: Imports from Ukraine in 2019 (HTS 4-Digit)</u></b>																							
<ul style="list-style-type: none"> <li>Poland (\$84,429,134)</li> <li>China (\$53,584,517)</li> <li>Ukraine (\$43,863,189)</li> <li>Hungary (\$33,102,009)</li> <li>Chile (\$24,762,198)</li> </ul>		1. Fruit Juices (2009) - \$45,755,428  2. Preserved Vegetables, Fruits & Nuts (2001) - \$265,973  3. Jams, Fruit Jellies & Marmalade (2007) - \$178,188																							



**Figure 90 – Ukrainian Iron & Steel Casing Imports (7304.29.2010): Preliminary Market Analysis**

**Import Figures**

2019 Imports (USD Value)	\$43,101,762
2019 Imports (Quantity)	47,793,075 (kg.)
2018 Imports (USD Value)	\$30,024,399
2018 Imports (Quantity)	32,477,149 (kg.)
% Change 2018 – 2019 (USD Value)	44%
% Change 2018 – 2019 (Quantity)	47%
% Change 2015 – 2019 (USD Value)	652%
% Change 2015 – 2019 (Quantity)	1070%

**Import Trends (2010 – 2019)**  
**USD Value**



**Top 3 Ports of Entry (2019)**

- Houston, TX (\$42,979,416)
- Los Angeles, CA (\$122,346)
- N/A

**Top 3 Ports of Entry by 2015 – 2019 % Change**

- Houston, TX (\$650%)
- Los Angeles, CA (-84%)
- N/A

**Q1 2019**

Value: \$9,251,725

% Change Q1 2018: 14%

**Q1 2020**

Value: \$491,895

% Change Q1 2019: -95%

**Global Competitors (2019 Imports: USD Value)**

- Ukraine (\$43,101,762)
- Spain (\$32,697,064)
- South Korea (\$20,948,499)
- Russia (\$5,112,584)
- Thailand (\$1,153,385)

**Top Performing in Product Category: Imports from Ukraine in 2019 (HTS 4-Digit)**

- Tubes, Pipes & Hollow Profiles of Iron or Steel (7304) - \$152,716,131
- Tubes & Pipes nesoi (7305) - \$6,798,244
- Tubes, Pipes & Hollow Profiles nesoi (7306) - \$5,837,077

**Figure 91 – Ukrainian Electric Coffee Maker Imports (8516.71.0060): Preliminary Market Analysis**

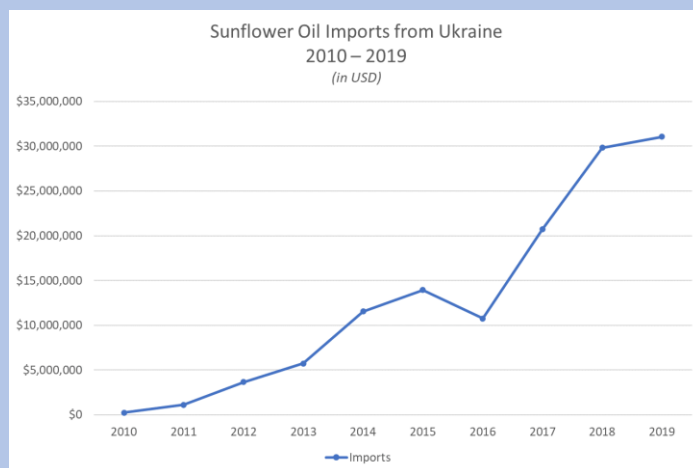
<b><u>Import Figures</u></b>		<b><u>Import Trends (2010 – 2019)</u></b>																	
<table border="1"> <tr> <td>2019 Imports (USD Value)</td> <td>\$19,202,519</td> </tr> <tr> <td>2019 Imports (Quantity)</td> <td>249,125 (units)</td> </tr> <tr> <td>2018 Imports (USD Value)</td> <td>\$7,829,895</td> </tr> <tr> <td>2018 Imports (Quantity)</td> <td>147,061 (units)</td> </tr> <tr> <td>% Change 2018 – 2019 (USD Value)</td> <td>145%</td> </tr> <tr> <td>% Change 2018 – 2019 (Quantity)</td> <td>69%</td> </tr> <tr> <td>% Change 2015 – 2019 (USD Value)</td> <td>2531%</td> </tr> <tr> <td>% Change 2015 – 2019 (Quantity)</td> <td>1289%</td> </tr> </table>		2019 Imports (USD Value)	\$19,202,519	2019 Imports (Quantity)	249,125 (units)	2018 Imports (USD Value)	\$7,829,895	2018 Imports (Quantity)	147,061 (units)	% Change 2018 – 2019 (USD Value)	145%	% Change 2018 – 2019 (Quantity)	69%	% Change 2015 – 2019 (USD Value)	2531%	% Change 2015 – 2019 (Quantity)	1289%	<p><b><u>USD Value</u></b></p>	
2019 Imports (USD Value)	\$19,202,519																		
2019 Imports (Quantity)	249,125 (units)																		
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% Change 2015 – 2019 (Quantity)	1289%																		
<b><u>Top 3 Ports of Entry (2019)</u></b>	<b><u>Top 3 Ports of Entry by 2015 – 2019 % Change</u></b>	<b><u>Q1 2019</u></b>	<b><u>Q1 2020</u></b>																
<ol style="list-style-type: none"> <li>Norfolk, VA (\$6,523,563)</li> <li>New York, NY (\$4,798,550)</li> <li>Miami, FL (\$3,234,882)</li> </ol>	<ol style="list-style-type: none"> <li>New York, NY (48078%)</li> <li>Ogdensburg, NY (2231%)</li> <li>Miami, FL (343%)</li> </ol>	Value: \$778,767  % Change Q1 2018: -61%	Value: \$3,045,828  % Change Q1 2019: 291%																
<b><u>Global Competitors (2019 Imports: USD Value)</u></b>		<b><u>Top Performing in Product Category: Imports from Ukraine in 2019 (HTS 4-Digit)</u></b>																	
<ul style="list-style-type: none"> <li>Italy (\$63,138,120)</li> <li>Switzerland (\$45,053,478)</li> <li>Ukraine (\$19,202,519)</li> <li>Hungary (\$14,227,971)</li> <li>Netherlands (\$5,426,788)</li> </ul>		<ol style="list-style-type: none"> <li>Electrical Apparatus for Line Telephony or Line Telegraphy (8517) - \$32,092,554</li> <li>Electric Water Heaters, etc. (8516) - \$23,459,203</li> <li>Carbon Electrodes, etc. (8545) - \$16,037,640</li> </ol>																	

**Figure 92 – Ukrainian Sunflower Oil Imports (1512.11.0020 and 1512.19.0020 aggregated): Preliminary Market Analysis**

**Import Figures**

2019 Imports (USD Value)	\$31,069,230
2019 Imports (Quantity)	25,844,281 (kg.)
2018 Imports (USD Value)	\$29,832,807
2018 Imports (Quantity)	25,684,993 (kg.)
% Change 2018 – 2019 (USD Value)	4%
% Change 2018 – 2019 (Quantity)	1%
% Change 2015 – 2019 (USD Value)	123%
% Change 2015 – 2019 (Quantity)	176%

**Import Trends (2010 – 2019)**  
**USD Value**



**Top 3 Ports of Entry (2019)**

1. San Francisco, CA (\$12,794,733)
2. Los Angeles, CA (\$11,034,945)
3. New Orleans, LA (\$2,696,279)

**Top 3 Ports of Entry by 2015 – 2019 % Change**

1. Detroit, MI (1584%)
2. Chicago, IL (468%)
3. Cleveland, OH (301%)

**Q1 2019**

Value: \$8,094,578  
% Change Q1 2018: 34%

**Q1 2020**

Value: \$20,429,443  
% Change Q1 2019: 152%

**Global Competitors (2019 Imports: USD Value)**

- Ukraine (\$31,069,230)
- France (\$17,713,174)
- Netherlands (\$11,897,539)
- Turkey (\$8,829,127)
- Argentina (\$6,971,322)

**Top Performing in Product Category: Imports from Ukraine in 2019 (HTS 4-Digit)**

1. Sunflower, Safflower Oil or Cottonseed Oil (1512) - \$31,069,230
2. Fixed Vegetable Fats & Oils. (1515) - \$199,387
3. Animal or Vegetable Fats & Oils (1518) - \$7,094

### ***1.3.2(1) General Entry Strategies & Recommendations (IT Sector)***

As mentioned in previous sections, Ukraine's most valuable export in this sector remains its services. Ukraine is at an advantage in that its services are competitively priced and rapidly increasing in quality (see Section 1.2.2(3) for further elaboration). In fact, services in the sphere of IT and telecommunications has composed over two-thirds of service exports to the United States in recent years. While the outbreak of COVID-19 at the end of the first quarter of 2020 has had an impact on global trade and in many cases slowed down the flow of goods and decreased consumer spending, this may provide an opportunity for Ukrainian IT service providers to compete in a market that is having to rely more and more on such services. While this data is for just before the impact of COVID-19, we can see that imports in Ukrainian IT services to the United States in the first quarter of 2020 were valued at \$231,393,790. This was 130.8% of the level of IT service imports relative to the first quarter in 2019.<sup>130</sup> It will be interesting to see if Ukrainian IT service providers can leverage their skill and affordability as the United States, like the rest of the world, is relying evermore on IT platforms to function.

With regard to potential products in the information technology space, this report identifies 10 key products that manufacturers and policymakers should assess with regard to IT sector export promotion from Ukraine to the United States. These products are outlined in Figure 93 and were identified as follows. Products were selected according to their SITC codes and were chosen among sections 75, 76 and 77 given their centrality in the various technology sectors. These sections respectively represent office machines and automatic data-processing machines; telecommunications and sound-recording reproducing apparatus and equipment; and

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<sup>130</sup> State Statistic Services of Ukraine

electrical machinery, apparatus and appliances.<sup>131</sup> Five products were chosen as the fastest growers in recent years and an additional five products were chosen for their reliable growth rates over the previous five-year period. Average annual growth rates (AAGR) were calculated between 2015 and 2019 using the following equation, where  $T$  is the number of years and  $CV$  is customs value:  $(1/T * \ln (CV_{2019}/CV_{2015}))$ . By assessing both fast growing and steadily rising import rates, exporters and policymakers can determine both short-term market entry potential as well as longer-term export strategies in this sector.

<b>Figure 93 – IT Product Analysis: Ukrainian Imports into U.S.</b>				
<b>Fast-Growing Imports (2019 Customs Value Relative to 2018 as Percentage)</b>				
<b>Rank</b>	<b>Product</b>	<b>2018</b>	<b>2019</b>	<b>Percent Change</b>
1.	Telephone sets (76411)	\$5,136	\$706,548	13657%
2.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus (76483)	\$62,924	\$4,542,354	7119%
3.	Electrical ignition or starting equipment used for spark-ignition or compression-ignition internal combustion engines; generators and cut-outs, etc. (77831)	\$8,570	\$205,190	2294%
4.	Electro-diagnostic apparatus (including apparatus for functional exploratory examination or for checking physiological parameters), n.e.s. (77412)	\$3,250	\$43,420	1236%
5.	Television cameras, digital cameras and video camera recorders (76484)	\$22,000	\$212,179	864%
<b>Reliably-Growing Imports (Highest 2015 – 2019 Average Annual Growth Rate)</b>				
<b>Rank</b>	<b>Product</b>	<b>2015</b>	<b>2019</b>	<b>AAGR</b>
1.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus (76483)	\$18,085	\$4,542,354	111%
2.	Parts of shavers and hair clippers with self-contained electric motor (excluding blades and cutter heads) (77549)	\$12,900	\$1,369,335	93%

<sup>131</sup> United Nations, Department of Economic and Social Affairs, “Standard International Trade Classification: Revision 4” ST/ESA/STAT/SER.M/34/REV.4. 2006  
[https://unstats.un.org/unsd/publication/SeriesM/SeriesM\\_34rev4E.pdf](https://unstats.un.org/unsd/publication/SeriesM/SeriesM_34rev4E.pdf)

3.	Digital processing units whether or not presented with the rest of the system which may contain storage units, input units or output units (75230)	\$52,313	\$909,105	57%
4.	Parts of electronic integrated circuits and microassemblies (77689)	\$2,800	\$43,899	55%
5.	Data processing equipment, n.e.s. (75290)	\$10,200	\$147,807	53%

Finally, the top 3 ports of entry are given for Ukrainian goods in SITC sections 75, 76, 77 as well as HTS Chapter 85 (electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles). This data is provided in Figure 94 and will give export promoters a better idea of which regions of the United States to target for marketing and sales endeavors.

<b>Figure 94 – Top 3 Ports of Entry by IT Product Category (2019)</b>				
	<b>SITC 75</b>	<b>SITC 76</b>	<b>SITC 77</b>	<b>HTS 85</b>
	office machines and automatic data-processing machines	telecommunications and sound-recording reproducing apparatus and equipment	electrical machinery, apparatus and appliances	electrical machinery and equipment; sound recorders and reproducers, television image and sound recorders and reproducers and parts thereof
1.	Dallas-Fort Worth, TX (\$993,720)	New York, NY (\$13,323,472)	Cleveland, OH (\$10,375,307)	New York, NY (\$21,585,226)
2.	Houston-Gavelston, TX (\$584,416)	Dallas-Fort Worth, TX (\$8,402,378)	New York, NY (\$8,449,834)	Cleveland, OH (\$11,821,835)
3.	New York, NY (\$525,249)	Chicago, IL (\$4,683,231)	Norfolk, VA (\$6,553,614)	Norfolk, VA (\$11,077,614)

### ***Capitalizing on Compliance***

One final recommendation in the IT space is for Ukrainian to look at the potential for setting itself apart as a provider of niche products that are compliant with forthcoming American regulations. In August of 2018, the Trump Administration signed the National Defense Authorization Act for Fiscal Year 2019 (NDAA 2019). One of the major trade-related provisions is Section 889. National Defense Authorization Act Section 889 (hereinafter “Section 889” or

“889”) is designed as a foreign acquisition regulation (FAR) that places stipulations on the sale and use of certain “covered” technologies in the process of selling a product or providing a service to the U.S. government. It also imposes strict reporting requirements on such contractors. The covered technologies are in reference to those supplied by five specified Chinese telecommunications firms: Huawei Technologies Company, ZTE Corporation, Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, and Dahua Technology Company and their subsidiaries.

While the scope of this legislation is still unknown, it may provide an opportunity for international IT-product suppliers to review their own supply chains in advance to provide “889-compliant” products to U.S. organizations that are covered by this prohibition. Jonathan Aronie, a legal expert covering Section 889 writes, “think about how many things in your office might contain covered components. Obviously, your computers, phones, printers, surveillance systems, and security systems might, but the list goes well beyond those items. As written, the rule could cover your thermostat, the cars in your fleet, your copiers.”<sup>132</sup>

If the scope of this legislation does prove wide (or have the potential to increase in the future), some Ukrainian manufacturers may be able to provide specialty products and services. There are likely numerous Ukrainian manufacturers that already produce IT products that would be considered compliant. Simply marketing them as such could give them a competitive edge in breaking into the American market for buyers that have these regulations in mind when forming their own procurement plans. Furthermore, assuming trends in supply chain security continue to develop in such fashion, Ukraine may be able to get ahead of the curve by ensuring it provides Ukrainian manufacturers with the resources to review their own supply chains to have the

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<sup>132</sup> 2019 National Defense Authorization Act, Section 889 Q&A. Sheppard Mullin.  
<<https://www.governmentcontractslawblog.com/wp-content/uploads/sites/108/2019/11/QA-Attachment.pdf>>

optionality to be able to provide compliant technologies to the United States and any other nations that may adopt similar legislation. Further information regarding NDAA Section 889 can be found [here](#).<sup>133</sup>

### ***Conclusion of IT Section***

The above analysis is designed to provide further insights into the patterns of trade between Ukraine and the United States with a particular focus on the information technology sector. However, it is also crafted to serve as a template for further analysis and provide some methodological frameworks for which both Ukrainian and American stakeholders can apply in any given endeavor. As can be seen in the sections above, several key insights can be garnered from obtaining a broad overview of the trade dynamics between two countries. When those insights are then taken to a particular sector, even more nuance becomes apparent. What was found is that the robustness of the Ukrainian IT sector has continued apace for the last several years and has the potential to progress even further in the coming years. While the impact of the COVID-19 pandemic is still being felt across the globe, this sector still has great growth potential both internally and with regard to bilateral trade with the United States. The adaptive nature of the technology sector lends itself to such advancements even in heavily disruptive times. This analysis worked to show that Ukrainian-U.S. bilateral trade relations has much to benefit by focusing on this sector and seeks to present a number of tools for these two trading partners to further that process well into the 2020's.

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<sup>133</sup> - Covington, "U.S. Government Releases Awaited "Section 889" Rule on Prohibition on "Use" of Covered Telecommunications Equipment by Federal Contractors". July 13, 2020. < <https://www.cov.com/-/media/files/corporate/publications/2020/07/us-government-releases-awaited-section-889-rule-on-prohibition-on-use-of-covered-telecommunications-equipment-by-federal-contractors.pdf>>



# List of Operational Recommendations for Ukrainian Stakeholders

	<b>Page</b>
1a. <b>Further Publicize TIC Meetings and Results</b> – ensure U.S. business partners understand the progress made through these meetings and the potential benefits that will result from the Working Group meetings	11
1b. <b>Assist American business partners understand Ukrainian licensing laws</b> – providing support throughout the process will enable American service providers and investors greater assurance in establishing a business presence in Ukraine.	19
1c. <b>Further Publicize Ukraine’s rank as a trading partner with California</b> – work with local and city governments in California to inform California business communities about overlapping interests and the impressive volume of CA-Ukraine trade.	31
1d. <b>Utilize Survey Results to Inform Government Policy and Business Operations Decisions</b> – surveys from organizations like the American Business Chamber of Commerce Ukraine or other consulting firms that poll U.S. business already in Ukraine serve as a valuable roadmap for future decision-making.	34
1e. <b>Ukrainian private sector should work with the government to best optimize IT clusters</b> – by further leveraging external economies of scale in the IT sector, continued productivity rise is inevitable and can act as a rising tide that will lift all boats in the Ukrainian economy.	48
1f. <b>Further analyze high growth rates in particular sectors</b> – this can provide insights into best practices for continuing export promotion policies	53
1g. <b>Further promote GSP benefits to U.S. business partners or in marketing strategies</b> – the savings from GSP programs can potentially give Ukrainian products a competitive edge over options from non-GSP importers	54
1h. <b>Further analyze top performers in Ukrainian service export sectors</b> – doing so can identify best practices and see what factors have the greatest impact on U.S. demand.	59
1i. <b>Use international ranking indicators to find leverage points</b> – these assessments by organizations like WIPO and the world bank can help policy-makers and business entities find specific areas to leverage for capacity building.	62
1j. <b>Further private-public collaboration with some of Ukraine’s top IT performers</b> – by finding best practices of Ukrainian-grown IT companies with top-tier track records, policy can be crafted around their experiences. Expertise from these companies can also be used to assist up-and-coming entities in the IT sector.	66
1k. <b>Trade data analytics can serve as an important policy tool</b> – assessing the trends in bilateral trade data (particularly causes of increases in exports of certain products) can help identify options for furthering Ukrainian export promotion. It can also pinpoint companies producing certain goods, where those goods are going and how government support can be provided most efficiently.	68
1l. <b>Further integrate models such as online investment platforms into official sources</b> – connecting investors with investment opportunities and facilitating this relationship-building can serve as a low-cost means of increasing FDI in Ukraine.	80

1m.	<b>Use survey results to focus on companies working on key technologies</b> – investors indicated that AI, Big Data Analytics, health, VR and FinTech are among the key priorities in the technology space. Having these insights can assist where policies (such as the “IT Creative Fund”) can focus funding.	81
1n.	<b>Ukrainian tech companies should focus on building non-technical skill capacity</b> – while not intuitive, this is an important element for potential foreign investors.	82
1o.	<b>Assist U.S. companies and investors navigate Ukrainian regulation and proactively promote potentially beneficial changes</b> – there are a number of changes in the regulatory landscape that U.S. businesses and investors should be made aware of.	84
1p.	<b>Assess Ukrainian import trends into the U.S. disaggregated by region</b> – this will allow for greater precision when promoting Ukrainian goods abroad in both the public and private sectors.	89
1q.	<b>Understand and make informed use of the various types of market entry strategies</b> – this will optimize the efficiency of market entry and new opportunities may become visible when viewed through these various lenses.	108
1r.	<b>Make use of DataWeb and similar trade analysis applications</b> – These free resources can assist manufacturers and sellers in Ukraine create tailored market research for their sector or even specific product.	109

# List of Operational Recommendations for American Stakeholders

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2a. <b>Further Publicize TIC Meetings and Results</b> – ensure U.S. business partners understand the progress made through these meetings and the potential benefits that will result from the Working Group meetings	11
2b. <b>Seek opportunities for U.S. exports of business development services to Ukraine</b> – this not only provides American service companies with revenue, but also helps Ukrainian business infrastructure develop. This is an area of bottom-up development that can be of benefit to all sectors.	15
2c. <b>Pay attention to areas for which there is less publicity but have received increasing investment flows</b> – assessing investment inflows to regions such as Ivano-Frankivsk, Poltava Zaporizhzhya may offer important insights into future investment potentialities and development.	27
2d. <b>Use Data-driven research to optimize Ukraine’s promising low-cost/high-quality workforce</b> - data on human capital trends (such as those provided above) can help U.S. companies assessing investment & offshoring opportunities abroad make the best decisions. It can also provide insight into otherwise unrecognized opportunity areas and gain a foothold in a currently undervalued labor market.	41
2e. <b>Track preferences of other countries to understand where opportunity may lie</b> – seeing where companies from other jurisdictions are outsourcing and determining their reasons for doing that can indicate potential growth. Many countries in Europe are finding Ukraine a coveted location for its IT services.	44
2f. <b>Further analyze high growth rates in particular sectors</b> – this can provide insights into where significant investment opportunities may lie in both the long- and short-term.	53
2g. <b>Gain further understanding of GSP procedures and consider taking political action to ensure continuation of the program</b> – American companies should review if they have inputs that can be imported under tariff-free treatment and work with importers from countries such as Ukraine to benefit. Furthermore, the GSP program must be renewed periodically. Associations like the Coalition for GSP can provide an important voice for U.S. industry.	54
2h. <b>Export in services data can provide useful insights into available options for U.S. consumers</b> – assessing the sectors of countries like Ukraine that have shown considerable growth can serve as an indication of value for service consumers in the U.S. Furthermore, e-commerce and technology are making these services more accessible regardless of geographic distance.	57
2i. <b>Use global rankings to inform business decisions</b> – rankings such as those by Clutch and the IAOP provide important insights for entities in the U.S. seeking quality service that is affordable in the IT and telecommunications space.	66
2j. <b>Use data analytics as performance indicators to create investment strategies</b> – performance indicators can give U.S. companies key insights into geographic regions with high enterprise success rates (retrospective) as well as areas where capital investments have increased (predictive).	77
2k. <b>Use online platforms to easily peruse investment opportunities in Ukraine</b> – resources such as those provided by Inventure Investment Group to easily see what opportunities exist in Ukraine at no cost and with no travel required.	80

21. **Assist in recruitment efforts for non-technical skill capacity building in the Ukrainian technology sector** – this is one specific area where business development services (a main U.S. service export to Ukraine) can be strategically focused.

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