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THE IMPACT OF WAR ON TRADE: A CASE STUDY OF UKRAINE'S TOBACCO INDUSTRY

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ВПЛИВ ВІЙНИ НА ТОРГІВЛЮ: ПРИКЛАД ТЮТЮНОВОЇ ПРОМИСЛОВОСТІ УКРАЇНИ

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Abstract. The article examines the transformations in Ukraine's international trade of tobacco products between 2010 and 2023. The authors focused on trade dynamics, structural shifts, and the resilience of the tobacco industry amid geopolitical and economic disruptions. The war in Ukraine has adversely affected all aspects of economic development, causing radical changes in international trade. Since 2014, Ukraine has gradually reduced its economic dependence on the Russian Federation by expanding export markets and restructuring its trade framework. Despite maintaining a negative trade balance over the past 14 years, the tobacco industry remains a highly dynamic sector that attracts significant foreign direct investment, generates employment opportunities, and contributes to tax revenues. The study is based on a quantitative analysis of statistical data from UN Comtrade Analytics (2024) and other official sources, as well as qualitative assessments from experts and legislative developments. The research methodology includes induction, deduction, generalization, and comparative analysis. The findings indicate that between 2010 and 2021, tobacco trade volumes experienced growth; however, in 2022, trade declined by 49% due to war. In 2023, a partial recovery (+6%) was observed, though it was primarily driven by increased imports rather than exports. The geographical structure of trade underwent significant shifts: imports from Russian Federation were completely halted in 2022, while Italy became Ukraine's primary supplier of tobacco products. The export structure remained relatively stable, although in 2023, Saudi Arabia emerged as Ukraine's leading export destination, surpassing traditional trade partners. A significant portion of exported manufactured tobacco products highlights the strength of the Ukrainian tobacco industry and its importance as a processing hub, despite facing economic and geopolitical challenges. The authors' conclusions highlight the tobacco industry's role as a value-added sector and its relative resilience to economic crises. Prospects for further research include assessment of the long-term consequences of the war, regulatory changes, and the adaptation of Ukraine's tobacco sector to global challenges.

Keywords: international trade, tobacco industry, trade disruptions, geopolitical risks, structural shifts, foreign direct investment, export, import, trade policy.

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Анотація. У статті здійснено дослідження змін в міжнародній торгівлі тютюновими виробами України у період 2010–2023 років. Автори зосередили увагу на динаміці торгівлі, структурних зрушеннях та стійкості тютюнової галузі в умовах геополітичних та економічних потрясінь. Війна в Україні негативно вплинула на всі аспекти економічного розвитку, спричинивши радикальні зміни у міжнародній торгівлі. Починаючи з 2014 року, Україна поступово зменшувала економічну залежність від Російської Федерації, розширюючи ринки збуту та змінюючи структуру зовнішньої торгівлі. Тютюнова промисловість, попри негативне торговельне сальдо за останні 14 років, є високодинамічним сектором, який залучає значні прямі іноземні інвестиції, створює робочі місця та формує податкові надходження до бюджету. Дослідження засноване на кількісному аналізі статистичних даних UN Comtrade Analytics (2024) та інших офіційних джерел, а також на якісних оцінках експертів та законодавчих змін. Методи дослідження, застосовані авторами, включають індукцію, дедукцію, узагальнення та порівняльний аналіз. Результати дослідження показують, що з 2010 до 2021 року обсяги торгівлі тютюновими виробами зростали, але у 2022 році внаслідок війни торгівля

скоротилася на 49%. У 2023 році спостерігалось часткове відновлення (+6%), однак воно було спричинене переважно зростанням імпорту, а не експорту. Географічна структура торгівлі зазнала суттєвих змін: імпорт із РФ повністю припинився з 2022 року, тоді як Італія стала основним постачальником тютюнових виробів в Україну. Експортна структура залишалася більш стабільною, хоча Саудівська Аравія у 2023 році стала основним напрямком експорту, витіснивши традиційних торговельних партнерів. Висновки авторів підкреслюють значення тютюнової промисловості як сегмента, що створює додану вартість, та демонструють її відносну стійкість до кризових явищ. Подальші дослідження необхідні для оцінки довгострокових наслідків війни, змін регулювання та адаптації тютюнової галузі до глобальних викликів.

Ключові слова: міжнародна торгівля, тютюнова промисловість, торговельні збої, геополітичні ризики, структурні зрушення, прямі іноземні інвестиції, експорт, імпорт, торговельна політика.

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Problem statement. The war has significantly disrupted Ukraine, affecting all aspects of its existence since February 2022. Notably, Ukrainian international trade has been a notable sector undergoing significant changes due to the war. Since 2014, Ukraine has reduced its economic dependence on the Russian Federation. This has been achieved by diversifying its trade relations with new markets and restructuring its international trading structure. The Ukrainian tobacco industry is a highly dynamic sector that attracts significant foreign direct investment (FDI), creates enormous employment opportunities, and significantly contributes to the national budget through taxation.

Nevertheless, while maintaining a negative trade balance of tobacco products over the past 14 years, the Ukrainian tobacco industry has deviated from the broader trends of Ukrainian international trade, positioning itself as a value-adding sector in the national economy. In the article authors present a comprehensive analysis of Ukraine's international tobacco trade dynamics from 2010 to 2023.

Literature review. According to Batrakova and Fomenko (2023) “one of the fundamental pillars of international trade is export, whose strategic role lies in its function as a tool for establishing external relations with various countries worldwide. It contributes to shaping the image of the domestic market, strengthens potential competitive advantages of goods and services, and facilitates access to new foreign markets alongside leading global economies”.

Global and international trade have faced significant challenges in recent years, influenced by various crises. Bhadra, Gul, and Choi (2023) argued that “the COVID-19

pandemic disrupted global supply chains, highlighting the urgent need for a more resilient and adaptable industrial framework within the tobacco sector. Beyond the pandemic, climate change, prolonged droughts, military conflicts, and transportation disruptions further challenge the stability of tobacco production and international trade”. Similarly, Zhabynets (2022) pointed out that “the main globalization factors that have determined trends in Ukraine's international trade today and in recent years are the COVID-19 pandemic, the free trade zone with the EU, and war in Ukraine”.

The war in Ukraine has played a particularly disruptive role in international trade and global supply chains. Palamarchuk (2024) asserts that “the war has significantly disrupted global supply chains, particularly in industries dependent on Ukrainian exports, such as agriculture and manufacturing. The direct consequences for Ukraine’s domestic production and exports have been severe”. Ivanov (2023) stated that “the destruction of industrial sites, severe infrastructure damage, the displacement of millions of refugees, and the blockage of maritime routes have resulted in an unprecedented collapse in production and significant disruptions to supply chains in Ukraine”. Additionally, Zhabynets (2022) highlights that “the closure of ports, damage to transportation infrastructure, and the destruction of storage and production facilities have significantly restricted the ability to conduct regulated exports”.

According to Ilyash, Doroshkevych, & Dacenko (2019), “the conducted research indicates that as a result of the war in Ukraine, there has been a geographical shift (reorientation) in export and import flows from the East to the West. Consequently, Ukraine

has not yet restored its export volumes to the West due to the mismatch between domestic product quality and certification standards, as well as the low share of high-value-added goods”.

The tobacco industry in Ukraine has also suffered from these trade disruptions. Ruta (2023) noted that “among the top 30 exported products of Ukraine in 2018-2020, cigarettes containing tobacco accounted for \$328 million, representing 2% of the global export market for this product. If the war in Ukraine continues, logistics solutions for exports will be limited, with many constraints. The dependence on the railway system and the impracticality of shifting such large export volumes to road transport significantly impact trade”. Moreover, the war has exacerbated issues related to illegal trade. Bazhenova and Demydenko (2023) found that “the excessive difference between legal and illegally imported goods, especially during the war, when it becomes more and more difficult for the Ukrainian people to earn money, forms a black market for illegal goods because the consumer is ready to buy goods at a lower price, without an excise stamp”.

Despite the abundance of research devoted to the impact of armed conflicts on international trade in general, the transformation of trade flows at the sectoral level – particularly within Ukraine’s tobacco industry – remains insufficiently explored. Most scholarly works focus on agriculture, metallurgy, or energy sectors, while highly dynamic consumer markets, such as the tobacco industry, have largely remained outside the scope of academic attention.

Formulation of the Research Aim and Methods. The article aims to analyze the transformations in Ukraine’s international trade of tobacco products between 2010 and 2023, focusing on trade dynamics, structural shifts, and the sector’s resilience amid geopolitical and economic disruptions. The authors applied the approach, integrating induction and deduction methods, generalization, and comparative analysis to assess trade patterns, policy impacts, and market shifts. The study relies on quantitative data from UN Comtrade Analytics (2024) and

other official sources, supplemented by qualitative insights from industry reports, legislative developments, and expert commentary.

The results of the research. Ukraine’s international trade is characterized by the predominance of raw materials in exports – such as iron ore, grain, and semi-finished steel products—while imports primarily consist of finished goods. In the first nine months of 2024, plant-based products (mainly grain) accounted for 23.09% of total exports, whereas machinery and electrical equipment comprised 20.34% of imports (State Statistics Service of Ukraine, 2024). This pattern reflects a long-standing issue in Ukraine’s trade structure, where low-value-added goods are exported, and high-value-added products are imported (Ministry of Economic Development and Trade, 2017).

The contribution of the tobacco industry to value-added exports, on the other hand, deviates from this trend. From 2010 to 2018, the majority of imported tobacco products were raw materials, while over 91% of Ukraine’s tobacco exports during 2010–2023 were manufactured products (UN Comtrade Analytics, 2024). However, since 2019, the share of imported finished tobacco goods has increased, signaling a decline in Ukraine’s role as a processing and manufacturing hub. Despite this shift, multinational corporations continue to operate in Ukraine due to lower labor costs and favorable logistics, which benefit the Ukrainian economy by contributing to employment, FDI, and tax revenue.

Changes in the import structure (demonstrated in Figure 1) have been driven by regulatory interventions. In October 2019, the Ukrainian Parliament passed Draft Law No. 1049, introducing state regulation of trade margins on tobacco products (Natalukha et al., 2019). This law set a maximum wholesale price at 80% of the retail price and limited retailer margins to 13% (Holub, 2019). The new regulation led to immediate disruptions, including British American Tobacco (BAT) suspending production in Pryluky and Japan Tobacco International (JTI) Ukraine declining to repurchase excise stamps worth UAH 350

million (Pyrozhok, 2019). As a result, domestic production fell by 18.4% in 2019 (Ministry of Finance of Ukraine, 2019),

prompting a rise in the import of finished tobacco products to meet market demand.

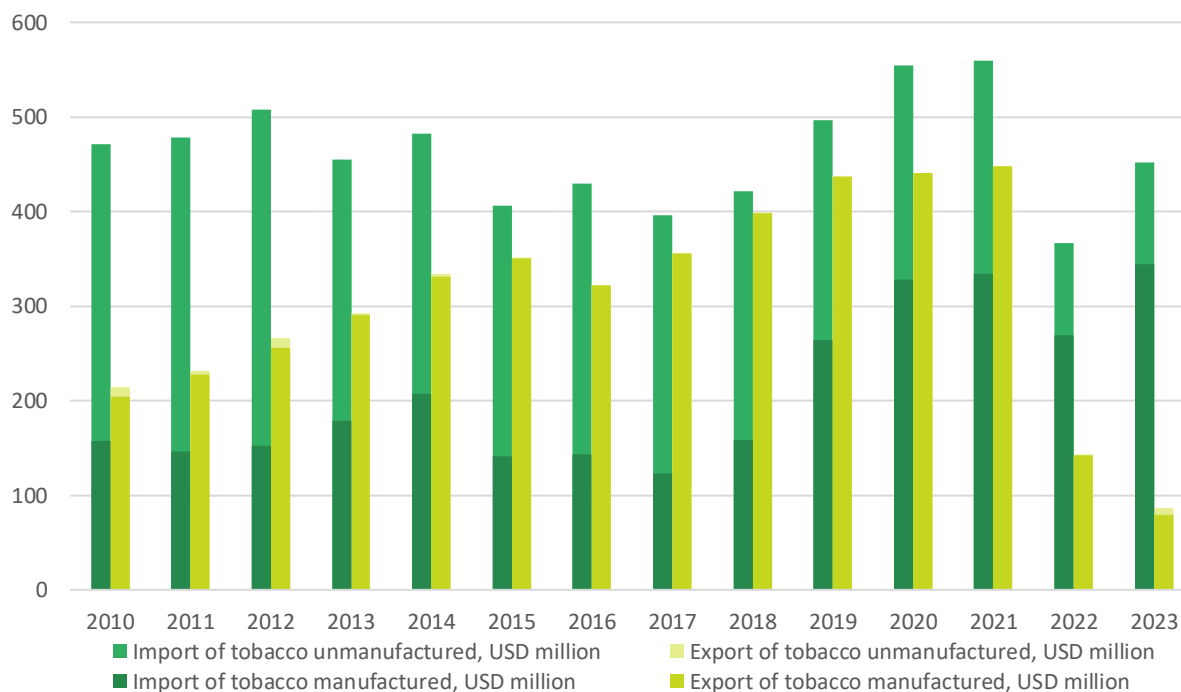


Figure 1. Structure of Ukrainian import and export of tobacco products by the product type in USD million, 2010 – 2023

Source: created by authors based on the (UN Comtrade Analytics, 2024).

Further disruptions occurred in 2022 due to the war. Major production facilities, such as BAT’s Pryluky plant and Imperial Tobacco’s Kyiv factory, suspended operations for months (BAT Ukraine, 2022; Skliarenko, 2024). To sustain supply, international companies increased imports of manufactured tobacco products, raising their share in the import structure to 73.3% in 2022 and 76.11% in 2023 (UN Comtrade Analytics, 2024). Despite these changes, the share of manufactured tobacco in Ukraine’s tobacco exports remained above 90% throughout

2010–2023, reinforcing the sector’s role as an export-oriented industry.

Between 2010 and 2021, Ukraine’s tobacco trade volume exhibited steady growth, with exports accounting for 73% of the increase and imports contributing 27%, which demonstrated in Figure 2 (UN Comtrade Analytics, 2024). However, in 2022, the trade volume declined by 49% due to the war. In 2023, trade volume rebounded by 6%, driven primarily by import growth, marking a shift from the pre-war period when export expansion was the dominant factor (UN Comtrade Analytics, 2024).

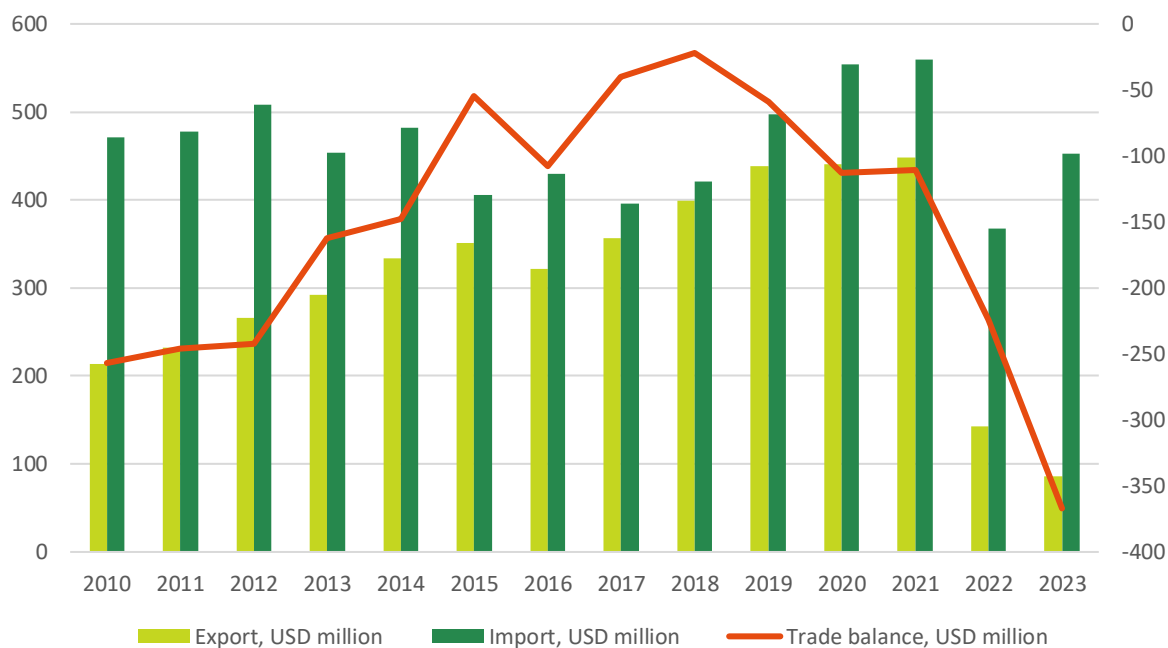


Figure 2. Ukrainian import and export of tobacco products in USD mln, 2010 – 2023

Source: created by authors based on the (UN Comtrade Analytics, 2024).

From 2010 to 2021, tobacco imports increased by \$88 million (18.68%) (UN Comtrade Analytics, 2024). While 2010–2012 saw stable growth, imports declined between 2013 and 2017 due to the hryvnia devaluation and reduced trade with Russia. A recovery followed in 2017–2021, with imports rising by 41% over five years, reaching a peak of \$559 million in 2021. However, in 2022, imports dropped by 34% to \$367 million. Despite the decline, multinational companies such as Philip Morris International (PMI) compensated for local production losses by importing from overseas plants, because after the beginning of the war, the company was unable to continue production at their plant in Kharkiv (Interfax-Ukraine, 2023). In 2023, imports recovered by 23%, reaching \$452 million (UN Comtrade Analytics, 2024).

During 2010–2021, Ukraine’s tobacco exports more than doubled, increasing by \$234 million or 109% (UN Comtrade Analytics, 2024). This upward trend was disrupted in 2022 when exports fell by 68% due to the war. Unlike imports, exports continued to decline in 2023, dropping by an additional 40% (UN Comtrade Analytics, 2024). Over two years, tobacco exports contracted more than 80%, primarily due to logistical disruptions. According to Sharamok (Forbes Ukraine, 2024), CEO of Japan Tobacco International (JTI) Ukraine, “the absence of secure maritime transport remains a significant barrier to export recovery; Ukrainian exports remain costly and time-consuming without safe sea transportation”.

Throughout 2010–2023, Ukraine maintained a negative trade balance in tobacco products, with the smallest deficit recorded in 2018 (-\$22 million), driven by rising exports and reduced imports between 2014 and 2018 (UN Comtrade Analytics, 2024). However, between 2019 and 2020, import growth outpaced export expansion, leading to a decline in the trade balance. By 2023, the trade deficit had worsened 3.3 times compared to 2021 due to consecutive export declines and increasing imports (UN Comtrade Analytics, 2024).

The geographical distribution of Ukraine's tobacco imports has altered significantly over the past 14 years. Between 2010 and 2014, Russia accounted for 20 – 26% of Ukraine’s tobacco imports. However, from 2014 imports from Russia began to decline, falling to 19.2% in 2015 and further decreasing annually to 2.1% by 2021. Since 2022, Ukraine has ceased importing tobacco products from Russia entirely (UN Comtrade Analytics, 2024).

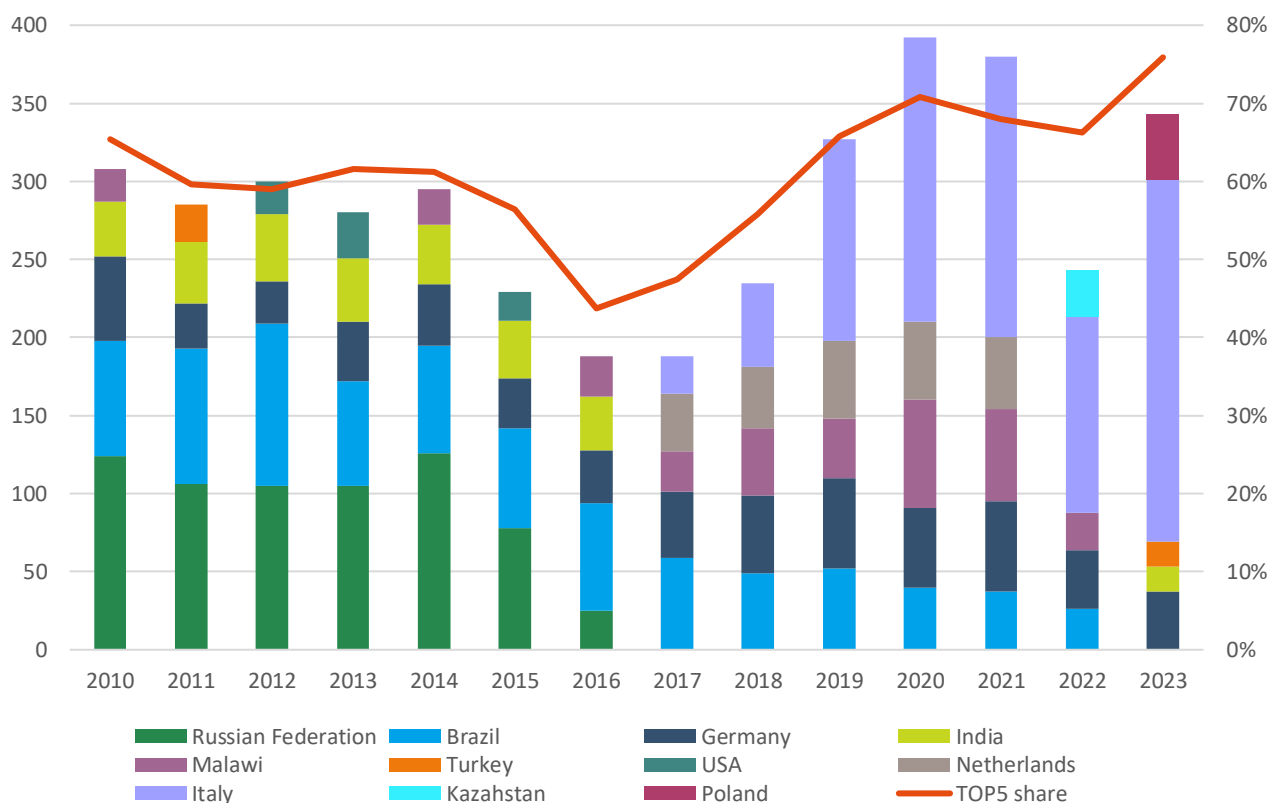


Figure 3. Ukraine's Top-5 Source Countries of Tobacco Product Imports in USD mln, 2010 – 2023

Source: created by authors based on the (UN Comtrade Analytics, 2024).

Simultaneously, imports from Italy increased significantly. From 2019 to 2023, Italy's share of Ukraine's tobacco imports consistently exceeded 25%, primarily due to substantial investments in Italy's tobacco industry by multinational corporations. Philip Morris invested approximately €1 billion in 2016–2017 to establish a smokeless cigarette manufacturing facility near Bologna (Philip Morris International, 2024). BAT launched an innovation hub in Italy with a €500 million investment (British American Tobacco, 2023). These capital inflows boosted Italy's tobacco exports, making it Ukraine's dominant supplier.

Germany, Turkey, India, and Malawi have remained stable trade partners, with their shares in Ukraine's tobacco imports showing minimal variation over the past 14 years. Despite geopolitical challenges, these countries have consistently supplied tobacco products to Ukraine (UN Comtrade Analytics, 2024).

An analysis of import concentration reveals structural shifts in trade dependencies. Between 2010 and 2016, import concentration—measured as the share of imports from the top five supplying countries—declined from 65% to 44%, reflecting diversification. However, from 2017 to 2023, concentration increased, peaking at 76% in 2023, driven primarily by the growing share of Italian imports, which constituted 51% of Ukraine's total tobacco imports that year (UN Comtrade Analytics, 2024).

Unlike imports, Ukraine's tobacco export destinations have remained relatively stable. Georgia has been a consistent trade partner, with its share averaging 23% over the past 14 years, peaking at 33% in 2018 and dropping to a low of 11% in 2022 (UN Comtrade Analytics, 2024). Despite economic fluctuations, Georgia has continuously imported Ukrainian tobacco products since 2010.

Belarus was a key export destination from 2010 to 2014, accounting for 8–12% of

Ukraine's total tobacco exports. While trade volumes declined after 2014 due to Belarus's alignment with Russia, limited exports

continued until 2022, when they ceased entirely (UN Comtrade Analytics, 2024).

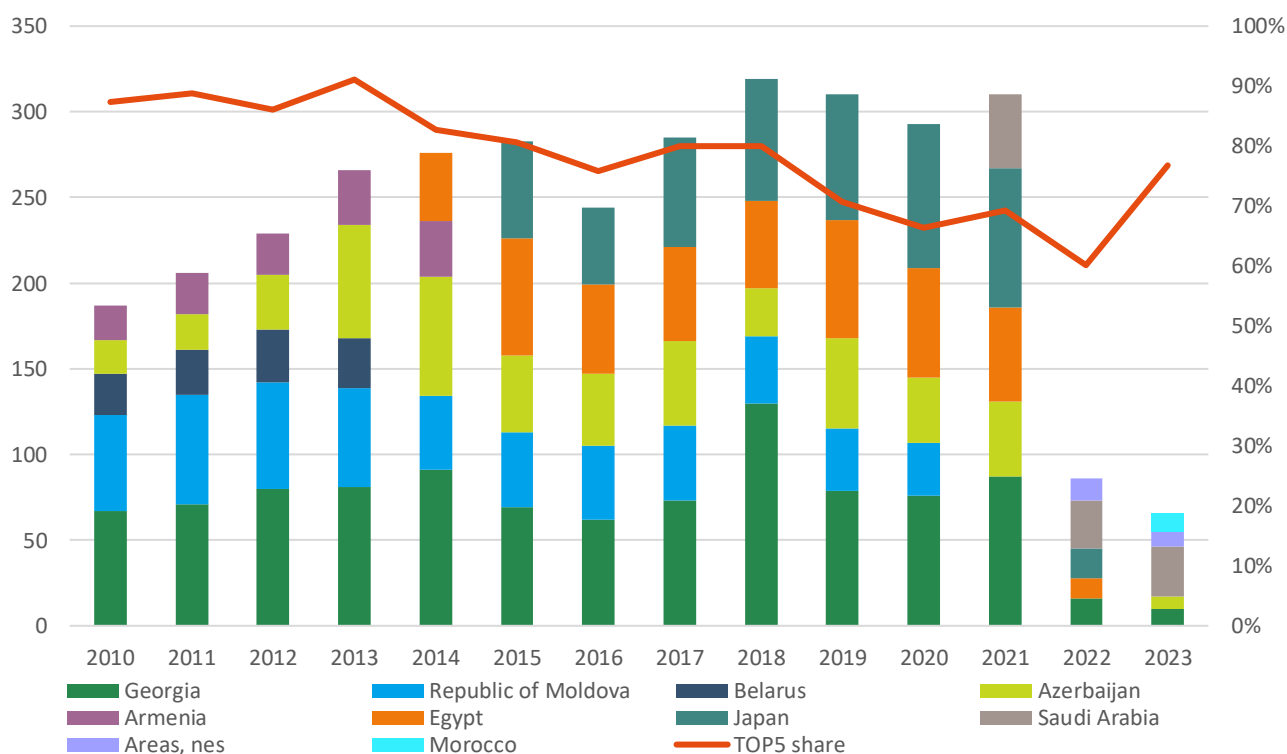


Figure 4. Ukraine's Top-5 Export Destinations for Tobacco Products in USD million, 2010 – 2023

Source: created by authors based on the (UN Comtrade Analytics, 2024).

Saudi Arabia emerged as a major export destination in 2019, with its share increasing from 5% to 34% by 2023. This growth is attributed to strengthened political and economic ties, including high-level diplomatic engagements and trade agreements (UN Comtrade Analytics, 2024). Similarly, Morocco became Ukraine's second-largest export market for tobacco products in 2023, continuing an upward trend that began in 2020 due to declining domestic tobacco production in Morocco.

Although Ukraine maintained stable tobacco trade relations with Japan from 2015 onward, exports to Japan were completely discontinued in 2023. The overall concentration of Ukraine's tobacco exports has demonstrated notable fluctuations. Between 2010 and 2013, the top five export destinations accounted for 86–91% of total exports, indicating a high level of dependency. From 2014 to 2022, this share progressively declined to 60%, reflecting greater diversification in

export markets. However, in 2023, the concentration ratio sharply increased to 77%, largely driven by the growing share of Saudi Arabia in Ukraine's tobacco exports (UN Comtrade Analytics, 2024).

Therefore, a high share of manufactured tobacco products in the export structure demonstrates the resilience of the Ukrainian tobacco industry and its role as a processing center despite economic or geopolitical threats.

Conclusions. The study results show the tobacco industry's unique position within Ukraine's international trade, deviating from broader national trade patterns due to its value-added exports and distinct market dependencies. In the article, the authors highlight the dramatical role of military conflict, political interventions, global trade shifts, and geopolitical events in shaping Ukraine's trade landscape. Given the ongoing war with a deep economic and political crisis, further research is needed to assess the long-

term impacts of the war, regulatory changes, and shifts in global supply chains for tobacco trade in Ukraine. The authors believe that the Ukrainian government and private sector could benefit from the lessons of the tobacco industry

by promoting similar value-added production models in other sectors, ensuring more diversified trade relations, and encouraging investment in high-skill industries to enhance economic resilience.

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