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POLICY BRIEF

26-6 Anchoring Ukraine's Postwar Recovery with a US-Ukraine Free Trade Agreement

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INTRODUCTION

The war with Russia has caused extensive damage to infrastructure, housing, energy systems, logistics networks, and productive capacity in Ukraine. Reconstruction in the aftermath will be a mammoth task.[1] Beyond just repairing the damage, as Yuriy Gorodnichenko and Maurice Obstfeld (2026) highlight, significant increases in additional capital formation are essential if Ukraine is to emulate the post-Soviet growth trajectories of countries like Poland and the Czech Republic as well as reintegrate its millions of displaced expatriates.

Official aid, concessional lending, and multilateral development bank support can finance emergency needs and public goods, but they cannot by themselves sustain long-term growth or modernization. For this, private investment must play the leading role. Sustained growth depends on private choices: on companies that decide to build new factories, households that invest in housing and skills, Ukrainian expats who return and participate in rebuilding their nation, foreign investors that establish supply chains, and insurers and lenders that agree to binding long-term contracts. These decisions all hinge on trust and credibility.

Yet private decision makers currently face profound uncertainty. One set of concerns relates to internal policy risks: that regulations may be applied arbitrarily,

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1 In a joint assessment, the government of Ukraine, the World Bank, the European Commission, and the United Nations estimate that reconstruction could cost in the region of $500 billion over a decade. See World Bank, Updated Ukraine Recovery and Reconstruction Needs Assessment Released, press release, February 25, 2025.

that corruption could distort fair competition, or that reforms might be reversed if political coalitions change. A second set of concerns relates to international instability. Even if international peace agreements are signed, investors will remain skeptical about their sustainability and concerned about the risks of renewed hostilities.

Trade policy is not a panacea for these challenges. Nevertheless, in certain historical contexts—particularly in transition and postconflict economies—trade agreements have played a useful supplementary role as institutional commitment devices. By embedding domestic policy choices within international legal frameworks, such agreements can raise the political and reputational costs of policy reversal, strengthen reform-oriented domestic coalitions, shape expectations about long-term economic policy stability and increase the credibility of security commitments.

Ukraine has already initiated a more active trade policy aimed at immediate benefits. Since 2022, it has achieved free trade access for its exports to the European Union, the United Kingdom, and Canada, and as a result, has relied on its agricultural exports as the major source of wartime export revenues. Integration with the European Union is also at the center of its longer-run reconstruction strategy. Ukraine's Deep and Comprehensive Free Trade Area (DCFTA) agreement with the European Union entails far-reaching regulatory alignment.[2] Ukraine has also been granted EU candidate status, but to become a full-fledged EU member it must make a complex set of reforms. Moreover, every chapter of the reform agenda must be unanimously approved by EU members. Meeting these demanding requirements could delay its membership for a decade or more.

Agreements on closer economic ties between Ukraine and the United States can play an important supplementary role to these EU initiatives. These could range from an agenda of discreet agreements to a comprehensive free trade agreement (FTA). Since EU membership requires Ukraine adopting the *common* EU external tariff, some might question if a US-Ukraine FTA would be compatible with accession. Indeed, given EU rates on US imports prior to the July 2025 (so-called Turnberry) deal between the European Union and the United States, this might have led to major inconsistencies between the EU common tariff rates and a US-Ukraine FTA. However, in the July agreement the European Union agreed to eliminate its tariffs on all US industrial products. Under this treatment, therefore, only nonindustrial products that accounted for just 8.6 percent of Ukrainian imports from the United States might require special treatment in a US-Ukraine FTA to achieve compatibility.[3]

It should be noted, however, that the US Supreme Court in February 2026 struck down President Donald Trump's tariffs that he used as leverage in obtaining the US-EU agreement. The court's ruling cast uncertainty over the future of the US-EU agreement, leading to delays in its ratification by the EU

2 "The DCFTA will offer Ukraine a framework for modernizing its trade relations…via the progressive removal of customs tariffs and quotas, and by an extensive harmonization of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards." See European Commission, EU-Ukraine Deep and Comprehensive Free Trade Area.

3 US Department of Agriculture, Foreign Agricultural Service, *Ukraine Exporter Guide Annual*, January 6, 2025.

Parliament. Nonetheless, Trump is seeking to exert leverage through the use of other US trade laws, and, assuming that ultimately the EU tariff commitments with respect to US industrial exports remain similar, the compatibility problem should not arise.

For Ukraine, these agreements with the United States could achieve stronger investor protections, regulatory transparency, and anticorruption and dispute settlement mechanisms that anchor private investment and accelerate convergence toward advanced-economy standards, while diversifying export markets beyond Europe and ultimately providing firms based in Ukraine with better access to the US market than firms in the European Union. They could be implemented more rapidly than full EU membership and thus play a critical role in bolstering a peace agreement.

For the United States, Ukraine offers a strategically valuable production platform: a large, skilled workforce; a legacy industrial base; and significant reserves of critical minerals, metals, and agricultural inputs needed for energy transition, defense, and supply chain resilience. Preferential trade and investment rules would allow US firms to treat Ukraine as a politically aligned, near-shore manufacturing and resource hub inside Europe. An FTA would convert US aid into self-sustaining economic engagement: American companies would gain priority access to reconstruction projects, strong intellectual property protection, and guaranteed market access for machinery, engineering, energy, and digital services, turning taxpayer-funded assistance into investment that generates US exports and profits.

Strategically, a US-Ukraine FTA would help lock Ukraine into Western economic institutions and standards, preventing postwar drift toward Russian or Chinese influence and ensuring that the rules governing a $500 billion reconstruction economy reflect US and allied interests. In this sense, trade integration could be as important to Ukraine's long-term security and sovereignty as any military guarantee.

We develop these arguments in this Policy Brief. Section I reviews of the current state of Ukraine-US trade and investment relations and discusses their potential for growth in the context of an FTA. Section II highlights the need to reform Ukraine's weak internal governance and institutions and the potential role trade agreements can play in their reform. Section III considers the role of an agreement in enhancing the national security goals of both parties. Section IV explores concluding more limited agreements as precursors to a comprehensive FTA.

I US-UKRAINE TRADE AND INVESTMENT

Bilateral trade between the United States and Ukraine is modest. In 2024, total bilateral trade stood at roughly $2.9 billion.[4] America accounts for only 4.9 percent of Ukraine's imports,[5] and Ukraine represents just 0.036 percent of US imports.[6]

4 US Census Bureau, Economic Indicators Division, USA Trade Online, US Import and Export, Merchandise trade statistics.

5 Calculated based on the State Customs Service of Ukraine data from Dashboard on exports and imports of Ukrainian goods.

6 Calculated based on US Import and Export, Merchandise trade statistics from US Census Bureau, Economic Indicators Division, USA Trade Online.

The asymmetry is even clearer on the export side. Only 2 percent[7] of Ukraine's exports go to the United States—less than half of the volume exported to Turkey and one-fifth of that exported to Poland (see table 1), while Ukraine absorbs a mere 0.08 percent of American exports.[8] US foreign direct investment in Ukraine, however, has increased since the war began.[9]

Table 1
Ukraine's major export destinations, 2024

Destination	Share of Ukraine's total exports (percent)
Poland	11
Spain	7
Germany	7
China	6
Turkey	5
United States	2

Source: Shares are based on reported 2024 goods trade by the State Customs Service of Ukraine.

Ukraine exports largely raw materials to the United States and imports high-value-added goods in return. On the one hand, Ukrainian exports to the United States are concentrated in a narrow set of products, including iron and steel products, selected agricultural goods, and a small range of manufactured items, and US shares reflect the limited importance of the US market for even Ukraine's leading bilateral export products (table 2). Ukraine will be treated like most US trading partners and could for five months face a tariff on all exports of upto 15 percent under section 122 of the Trade Act of 1974,[10] but the additional specific product tariff rates are typically low, and Ukraine has also benefited from temporary trade preferences introduced after the invasion. However, the suspension of 25 percent tariffs[11] on Ukrainian steel under section 232 of the Trade Expansion Act of 1962 expired in June 2025, and like most trading partners

7 Calculated based on the State Customs Service of Ukraine data from Dashboard on exports and imports of Ukrainian goods.

8 Calculated based on US Import and Export, Merchandise trade statistics from US Census Bureau, Economic Indicators Division, USA Trade Online.

9 National Bank of Ukraine, External Sector Statistics, Direct Investment Flows by Instruments, Regions, Countries, Types of Economic Activity, 2024.

10 White House, Imposing a Temporary Import Surcharge to Address Fundamental International Payments Problems, February 20, 2026.

11 White House, Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs, February 11, 2025.

50 percent additional tariffs on steel and aluminum were imposed.[12] On the other hand, US exports to Ukraine consist primarily of machinery, transport equipment, agricultural inputs, and energy-related goods, and are typically not subject to high tariffs.[13]

Table 2
Ukraine's top exports to the United States compared with its exports of the same products to the world, 2024

Product (HS 4 code)	Ukraine's exports to US (millions of US dollars)	Ukraine's exports to world (millions of US dollars)	US share of world exports (percent)
72. Iron and steel	$380	$3,096	12.25
73. Articles of iron or steel	$124	$947	13.07
15. Animal, vegetable or microbial fats and oils	$37	$5,756	0.65
29. Organic chemicals	$36	$129	27.68
04. Dairy products	$29	$489	6
84. Nuclear reactors, boilers, machinery etc.; parts	$15	$864	1.75
44. Wood and articles of wood	$11	$1,461	0.72
85. Electric machinery, sound equipment; TV equipment; parts	$11	$2,278	0.48
23. Food industry residues and waste; prepared animal feed	$1	$1,481	0.08
Total trade volume (all HS codes)	$879	$41,733	2.1

HS = Harmonized System
Note: Values are rounded. Products are ranked by Ukraine's exports to the United States.
Source: United Nations, UN Comtrade Database.

Investment flows tell a similar story. US foreign direct investment in Ukraine has historically been limited, reflecting broader concerns about institutional quality, market size, and geopolitical risk. While reconstruction may create new opportunities, the binding constraint is unlikely to be the absence of preferential market access. Rather, as we discuss below, it is uncertainty about the durability of policies governing property rights, regulation, taxation, and dispute resolution, as well as national security.

12 White House, Fact Sheet: President Donald J. Trump Increases Section 232 Tariffs on Steel and Aluminum, June 3, 2025.

13 United Nations, UN Comtrade Database.

From the perspective of standard trade theory, current trade patterns imply modest static welfare gains from tariff elimination. Computable general equilibrium models calibrated to these levels would predict limited trade creation and relatively small increases in investment. But a closer inspection suggests that in several product areas, there are opportunities for export growth that could be significant for Ukraine without posing adjustment challenges for the United States.

But Ukraine's near invisibility in US trade should be seen less as a constraint than as an opportunity. Combined with the strategic imperatives already driving US engagement—from security to supply chain resilience—it creates scope for targeted trade expansion that is economically and politically defensible in Washington because its adjustment costs are minimal but transformative in Kyiv.

Agriculture

Agriculture offers the most immediate opportunity for expanding US-Ukraine trade. Ukraine is a major global agrifood exporter, yet it barely registers in the US market. Its products account for less than 0.1 percent of US agricultural imports, even though the United States absorbs around 10 percent of global agrifood imports.

This underrepresentation is not due to a lack of product overlap. Ukrainian exports align closely with US import demand across a range of categories: cereals and processed grains, oilseeds and derived products, vegetables, fruits, berries and nuts, sugar and confectionery, beverages, and livestock products. In theory, Ukraine could replace some of the existing suppliers in these segments. In practice, nontariff barriers—rather than tariffs—appear to be the binding constraint.

A striking example is poultry. For years, Ukrainian producers have attempted unsuccessfully to gain access to the US market, despite favorable cost structures and established export capacity. The obstacle has been regulatory.[14] By contrast, Chile secured access to the US poultry market in 2007 after regulatory alignment, which allowed its market to expand through exporting to the United States. As of 2024, the Chilean poultry market was estimated at US$1.24 billion but is projected to grow to US$1.7 billion by 2033.[15]

The geopolitical implications of US food trade patterns are striking. In 2024, the United States imported far larger volumes of cereals, milling products, oilseeds, fats, and prepared foods from Russia and China than from Ukraine, even as Ukraine's agricultural sector remains the backbone of its economy and a key source of wartime resilience. According to analytical estimates by the Ministry of Agrarian Policy of Ukraine, trade statistics show that Ukraine's share in US imports of these agricultural products remains relatively small compared with major global suppliers, despite the country's strong production capacity and export potential. This is particularly striking given that agriculture continues to play a critical role in sustaining Ukraine's economy during the war, generating

14 *Agrotimes*, "Ukraine is working to open the US market for poultry meat," January 16, 2026.

15 Deep Market Insights, Chile Poultry Market Size & Outlook, 2025-2033.

billions of dollars in export revenues and supporting a significant share of national economic activity.[16]

The principal barrier again remains regulatory. Removing these obstacles is unlikely to harm US producers, but it will replace imports from geopolitical rivals, anchor Ukraine more firmly in Western supply chains, and provide it with significant fiscal and strategic benefits.

The United States already has a tested mechanism for addressing such barriers: a Regulatory Partnership Arrangement. It is a collaborative arrangement between the US Food and Drug Administration (FDA) and a foreign regulatory counterpart. Similar frameworks with countries such as Mexico and Ecuador have focused on aligning food safety systems through joint inspections, audits, laboratory cooperation, and professional training.[17] Over time, this process can lead to systems recognition by US regulators for specific product categories, effectively neutralizing nontariff barriers.

Applied to Ukraine, a phased, category-by-category approach—modelled on Chile's experience—would offer a pragmatic path forward. It would deliver tangible economic benefits, reinforce US strategic objectives, and demonstrate that a security-driven trade policy can succeed when grounded in credible economic foundations.

Metallurgy

Metallurgy—particularly pipes and pig iron—represents Ukraine's most commercially credible industrial export opportunity in the United States. These products sit at the intersection of US energy security, manufacturing supply chains, and geopolitical diversification, while remaining economically marginal for American producers.

Ukrainian steel exports to the United States are highly concentrated. Pipes used in drilling operations accounted for roughly 71 percent of direct Ukrainian steel imports by value in the Harmonized System (HS) 73 category (articles in iron and steel) in 2024.[18] These products are designed for modern, high-torque drilling applications and are mainly used in oil and gas extraction. Crucially, they are not produced domestically in sufficient quantities in the United States, and their import supports US energy production. Pig iron represents the other major category, supplying US steelmakers with a critical input for domestic manufacturing. At the same time, Ukrainian steel accounts for less than 0.7 percent of total US steel imports in the HS 72-73 categories,[19] and volumes have been declining due to war conditions.

Compared with steel, aluminum, which is the world's second most used industrial metal after steel, is facing rapidly growing demand and transformation. Global aluminum demand is projected to increase by almost 40 percent by 2030,

16 Ministry of Agrarian Policy and Food of Ukraine and Ukrainian Agribusiness Club (UCAB), Ukraine: The Impact of War on the Profitability of Agricultural Production, no. 4, 2024.

17 US Food and Drug Administration, Global Update, September 2023, newsletter from OGPS.

18 Calculated based on data from US Department of Commerce, International Trade Administration, US Steel Import Monitor.

19 Calculated based on US Import and Export, Merchandise trade statistics from US Census Bureau, Economic Indicators Division, USA Trade Online.

driven by its use across transportation, construction, packaging, and electrical sectors. Meeting this demand will require a significant expansion of both primary (new) and secondary (recycled) aluminum supply.[20] This rising demand is further fueled by the growth of the global population and rapid urbanization in developing countries, where the need for aluminium is increasing across multiple industries. As a result, experts estimated that global aluminium consumption would reach 66.4 million tonnes by 2024.[21]

The strategic importance of aluminum is also reflected in policy priorities: The United States has included aluminum on its official list of critical minerals, recognizing its essential role in economic security, advanced manufacturing, and energy technologies, as well as the vulnerability of its supply chains to disruption.[22]

Nuclear Energy

According to the Organization for Economic Cooperation and Development's Nuclear Energy Agency (OECD NEA 2009), financing nuclear plants requires carefully designed risk-sharing mechanisms between governments, utilities, and private investors. Stable regulatory frameworks, government guarantees, and predictable electricity market conditions significantly reduce financing risks and help attract long-term capital. When such conditions are in place, nuclear energy projects can provide reliable baseload power and stable long-term returns for investors, while also strengthening national energy security.

In this context, nuclear energy remains one of the most commercially and strategically attractive sectors for US exports to Ukraine. Before Russia's full-scale invasion, it accounted for about 55 percent of Ukraine's electricity, generated by 15 reactors across four nuclear sites, highlighting its critical role in Ukraine's energy security.

The United States, which operates the world's largest fleet of nuclear reactors and is the largest producer of nuclear electricity globally, possesses significant technological and industrial capacity in reactor design, fuel supply, and nuclear services. This creates a strong foundation for deeper bilateral cooperation in nuclear energy.[23] In 2021, NNEGC Energoatom signed an agreement with the American company Westinghouse to construct two new power units at the Khmelnytskyi Nuclear Power Plant and supply Westinghouse AP1000 reactors, demonstrating the potential for long-term cooperation and modernization of Ukraine's nuclear sector.[24]

Currently, the occupation and shutdown of six reactors at the Zaporizhzhia plant have only intensified the urgent need for safe, Ukrainian-controlled capacity

20 World Economic Forum, Aluminium demand will rise 40% by 2030. Here's how to make it sustainable, November 28, 2023.

21 National Association of the Extractive Industry of Ukraine, Bauxite–the Raw Material for the "Heavenly" Metal, February 16, 2023.

22 US Geological Survey, Department of the Interior 2022 Final List of Critical Minerals, *Federal Register* 87, no. 37: 10381–10382

23 World Nuclear Association, Nuclear Power in the USA, updated March 6, 2026.

24 Ukrainian Nuclear Society, An Agreement Signed Between NNEGC Energoatom and Westinghouse on the Launch of a Project to Construct New Power Units at the Khmelnytskyi NPP, November 23, 2021.

at other sites, making the development of nuclear energy even more strategically important. This cooperation was further expanded in 2022, when Energoatom and Westinghouse agreed to increase the number of planned AP1000 reactors in Ukraine from five to nine and to broaden cooperation on nuclear fuel supply for the country's reactor fleet, reinforcing the strategic partnership and Ukraine's shift toward Western nuclear technologies.[25,26]

Given fiscal constraints, the most plausible model for new construction is Build-Own-Operate-Transfer (BOOT), which allows private capital to finance and operate reactors during the payback period before transferring ownership to the state. For investors, such structures offer long-term, stable returns; for Ukraine, they limit upfront budgetary exposure.

Wartime realities reinforce the case. Repeated attacks on energy infrastructure and the loss of Zaporizhzhia have accelerated the need to replace coal-fired capacity. At the same time, Ukraine's synchronization with the European electricity grid opens the door to cross-border power exports, turning generation capacity into a potential source of foreign revenue. In this setting, nuclear energy stands out as a cornerstone of both reconstruction and long-term resilience.

Rare Earths

Ukraine possesses some of the largest and most geologically diverse critical mineral endowments in Europe, including significant deposits of rare earth elements, titanium, lithium, graphite, and manganese—materials essential to electric vehicles, defense systems, semiconductors, and renewable energy technologies. Its rare earth–bearing formations, concentrated in central and eastern Ukraine and in the Ukrainian Shield,[27] are part of one of Europe's oldest and richest crystalline rock systems, giving Ukraine long-term potential to become a major non-Chinese supplier to Western markets.

While much of this potential remains underdeveloped due to war, underinvestment, and weak geological surveying and processing capacity, Ukraine's suitability for strengthening EU and US supply chains, combined with a skilled industrial workforce and existing mining and metallurgical infrastructure, makes it well-positioned for rapid scale-up once security and investment conditions stabilize. With Western capital, modern extraction technologies, and guaranteed market access through an FTA, Ukraine could evolve into a cornerstone of transatlantic critical mineral and advanced manufacturing supply chains—linking its economic recovery directly to strategic industries in the United States and Europe.

Initial steps have been taken towards collaboration. In May 2025, the United States and Ukraine signed a minerals agreement establishing a joint Reconstruction Investment Fund to promote investment in Ukraine's natural

25 World Nuclear Association, Westinghouse and Energoatom expand plans to nine AP1000 units, June 6, 2022.

26 World Nuclear Association, Nuclear Power in Ukraine, January 16, 2026.

27 *Uryadovyi Kurier* [Government Courier], newspaper of the Cabinet of Ministers of Ukraine, Reserves Have Been Explored. But How to Extract Them?, September 25, 2021.

resources, including critical minerals and rare earths.[28] This deal is not an outright transfer of resource ownership but a framework for shared governance and revenue contributions from future projects.

The strategic importance of critical minerals for advanced manufacturing, clean energy, and defense has heightened with increased US policy attention to supply chains—especially given global concentration of rare earth processing in China. The 2025 agreement reflects this interest and offers potential institutional support for long-horizon investment.

Defense Industrial Cooperation

In 2024, the United States–Ukraine Bilateral Security Agreement[29] committed both governments to enhanced defense industrial collaboration and private-sector partnerships in key production sectors—such as manufacturing drones, air defense systems and munitions, and artillery ammunition and components.[30]

The pipeline is already evident in publicly reported projects. Ukraine's state defense industry and US-based Amentum Services have partnered to build local capacity for restoring and maintaining US-supplied armored vehicles.[31] Northrop Grumman has finalized a coproduction agreement to produce medium-caliber ammunition in Ukraine.[32] In the drone ecosystem—where Ukraine's battlefield demand and learning effects are most pronounced—Boeing and Ukrainian manufacturer Antonov signed a memorandum of understanding. This agreement covers training, logistics support, and overhaul services for tactical unmanned aerial systems used by the Ukrainian Armed Forces, including ScanEagle, along with potential engineering support arrangements.[33] Beyond services, Ukraine has also announced a coproduction agreement with US-based Swift Beat. This plan seeks to produce "hundreds of thousands" of drones, including interceptors.[34]

In defense cooperation agreements, the key issue isn't just that the trade deal reduces tariffs but that it functions as an institutional commitment to mitigate long-term legal, regulatory, and security risks, enabling capital deployment. Accordingly, defense cooperation, including through the opening of the first foreign representative office of the joint stock company Ukrainian Defense Industry (UDI) in Washington,[35] acts as an "early stage" step towards a more comprehensive trade and investment framework: it is

28 White House, Fact Sheet: President Donald J. Trump Secures Agreement to Establish United States-Ukraine Reconstruction Investment Fund, May 1, 2025.

29 White House, Bilateral Security Agreement Between the United States of America and Ukraine, June 13, 2024.

30 President of Ukraine, Fact Sheet: Ukraine-U.S. Bilateral Security Agreement, June 13, 2024.

31 Ukrainska Pravda, Ukrainian Defense Industry to create joint venture with US Amentum Services, June 12, 2024.

32 Breaking Defense, Northrop Grumman finalizes deal to coproduce ammo in Ukraine, July 11, 2024.

33 Boeing, Boeing, Antonov to Collaborate on Defense Projects, press release, July 22, 2024.

34 President of Ukraine, Memorandum Between Ukraine and the U.S. Company Swift Beat, LLC Will Enable Scaling Up Production of Interceptor Drones, July 3, 2025.

35 Ministry of Strategic Industries of Ukraine, The Representative Office of UDI opens in the USA, July 9, 2024.

strategically clear in Washington, financially significant for Ukraine, and can turn wartime collaboration into lasting foreign direct investment and enhanced postwar deterrence.

In all these examples, the case for cooperation rests not only on economic benefits but also on mutual strategic alignment. Enhancing Ukrainian producers' access can bolster US supply chain resilience, reduce reliance on concentrated and adversarial sources, and ensure stable inputs vital for domestic manufacturing and energy—aligning with the US National Security Strategy.[36]

II PROMOTING INSTITUTIONAL REFORM

Governments often face what is known as a "time-inconsistency problem" (Kydland and Prescott 1977). This problem arises when policies that are optimal ex ante, including commitments to market openness, investor protection, or limits on discretionary intervention, become politically costly ex post, especially in the presence of distributional conflicts or fiscal constraints. In weak institutional environments, these incentives are amplified by limited judicial independence and administrative capacity. As a result, private actors may discount government promises, reducing investment even when formal policies appear favorable.

Deep trade agreements can help mitigate this problem by embedding domestic policies within international legal frameworks. Although the Marshall Plan is often remembered for the scale of US financial assistance, for example, US policymakers viewed trade not primarily as a source of short-run stimulus but as a mechanism for restoring confidence, disciplining domestic policy, and preventing the reemergence of inward-looking economic strategies. The plan succeeded because it was mutually advantageous politically and economically, for both providers and recipients.[37] It demonstrates that formal trade ties can have lasting strategic and institutional effects.

Deep trade agreements increase the political, diplomatic, and reputational costs of reversal. Withdrawal or noncompliance becomes more visible and more costly, both domestically and internationally. They can also strengthen political support by reform-oriented coalitions through tying domestic constituencies to external commitments. Since exporting firms have a strong interest in gaining improved access to foreign markets, they are likely to support these efforts, as well as efforts to ensure that domestic noncompliance by others does not reduce their benefits.

There is empirical evidence supporting these arguments (World Bank 2020, Lawrence 1996). Cross-country studies of preferential trade agreements suggest that so-called deep agreements, which cover services, investment, and regulatory issues, are more strongly associated with higher levels of trade and foreign direct investment than agreements limited to tariffs. The literature on Central and Eastern Europe indicates that the economic significance of EU trade and accession agreements lay less in immediate trade creation than in

36 White House, National Security Strategy of the United States of America, November 2025.

37 Bradford De Long and Barry Eichengreen (1991) emphasize that the Marshall Plan's success depended on the combination of aid, institutional conditionality, and integration into a broader Western economic framework.

their role as institutional anchors. Institutional integration associated with EU accession improved credibility and investment conditions, with effects that cannot be explained by trade flows alone (Piazolo 2000; Campos, Coricelli, and Moretti 2019).

US FTAs have served a similar function when agreements go beyond tariffs to include binding rules on investment, competition, labor, and regulatory governance. The clearest example is Mexico under the North American Free Trade Agreement (NAFTA). By locking in protections for investors, disciplines on state-owned enterprises, intellectual property rights, and independent dispute settlement, NAFTA permanently altered Mexico's policy regime (CRS 2024). With NAFTA, foreign direct investment surged, discretionary licensing and expropriation largely disappeared, and successive governments across the political spectrum maintained the framework even when domestic pressures favored reversal—precisely the kind of policy lock-in that might be hoped for. Similar effects are evident in US FTAs with Central America (CAFTA-DR)[38] and Morocco.[39]

Ukraine is burdened by a long legacy of weak institutions, oligarchic influence, and endemic corruption rooted in its Soviet past. Courts were politicized, regulatory agencies were vulnerable to capture, and large sectors of the economy, particularly energy, infrastructure, and media, dominated by a small number of politically connected business groups. This legacy continues to shape governance challenges today. International indices underscore these challenges.[40]

Since 2014, Ukraine has undergone one of the most ambitious anticorruption and institutional reform efforts in the post-Soviet region. It created independent bodies with investigative and prosecutorial authority, including the National Anti-Corruption Bureau, a specialized anticorruption prosecutor, and a High Anti-Corruption Court. These institutions have pursued cases against ministers, members of parliament, judges, and senior officials—something unprecedented in Ukraine's history.

The war has both strained and tested these institutions. Emergency spending, reconstruction contracts, and defense procurement have created new corruption risks, and several scandals, particularly those involving military food and supply contracts, have confirmed that abuse continues to occur. However, unlike many wartime states, some of these cases have eventually been exposed and prosecuted by Ukraine's own anticorruption institutions, often leading to resignations and criminal investigations of senior officials.

The judiciary remains one of the weakest links. Court delays, procedural dismissals, and uneven enforcement still undermine the credibility of

38 Office of the US Trade Representative, Dominican Republic-Central America FTA (CAFTA-DR).

39 Office of the US Trade Representative, Morocco Free Trade Agreement.

40 In the 2024 Transparency International Corruption Perceptions Index, Ukraine scored 35 out of 100, with zero indicating high perceived corruption, placing the country 105th out of 180 countries. According to the World Justice Project Rule of Law Index 2025, Ukraine ranks around 90th out of 143 countries. It remains below many EU and OECD members. The World Bank Worldwide Governance Indicators consistently show that Ukraine records below average scores on "Control of Corruption," "Rule of Law," and "Government Effectiveness."

anticorruption efforts and the security of property rights. Local governments also vary widely in capacity and integrity, especially in reconstruction spending. Corruption remains a serious constraint, but institutional accountability is far stronger than a decade ago, and continued EU-driven judicial and governance reforms are likely to further narrow the gap with European standards.

In sum, an FTA could provide Ukraine with more credible and effective policies in areas that matter for investment and long-term integration. These include protections for foreign investors, disciplines on regulatory transparency, commitments in services sectors such as logistics and finance, and improved customs facilitation. Government procurement provisions could enhance transparency and competition in reconstruction-related spending, while dispute resolution mechanisms could provide an additional layer of legal recourse.

III ENHANCING NATIONAL SECURITY

History suggests that peace agreements anchored solely in ceasefires and troop deployments are more fragile when they are not embedded in a broader architecture of economic integration, market access, and investment. Security assurances are most credible when the guarantors have more to lose from their failure than adhering to the agreement's terms. A dense web of trade ties, supply chain integration, and joint industrial projects created through a US-Ukraine FTA would give the United States and Europe a direct economic stake in Ukraine's sovereignty and territorial integrity. That converts Ukraine's security from a matter of geopolitical principle alone into one of tangible economic self-interest—strengthening deterrence and increasing the likelihood that any peace settlement, once reached, will hold.

Yet the politics of security guarantees are contested. Ukraine seeks binding, long-term protection against renewed Russian aggression, while the United States and European governments remain cautious about commitments that could imply open-ended military obligations or direct confrontation with Russia. Membership in the North Atlantic Treaty Organization (NATO) remains uncertain and politically sensitive, and even bilateral security assurances face domestic and alliance constraints. This creates a gap between Ukraine's need for credible deterrence and its partners' willingness to offer formal military guarantees on the scale Ukraine desires—leaving any purely security-based peace framework vulnerable to ambiguity, hesitation, and erosion over time.

Ukraine's accession to the European Union could help enhance the credibility of a peace agreement, and indeed Ukraine has sought a provision to that effect in its peace negotiations. But speedy accession to full membership in time for a peace treaty is problematic because it could involve compromising on the intensive steps new members are required to undertake—a concession that some EU members are reluctant to make.[41] Thus the most that can be achieved rapidly is a more limited version of membership, with full membership postponed until

41 "Kyiv insists that a firm date for its EU accession be included in the peace agreement, but EU diplomats are pushing to water down any binding commitments or propose some form of membership that does not immediately entail all the benefits that current member states enjoy" ("Ukraine would join EU next year under draft peace plan," *Financial Times*, December 12, 2025).

additional conditions are met.[42] By contrast, a US-Ukraine free trade agreement could be reached much more quickly than full EU accession.

IV HOW TO PROCEED

The argument developed in this Policy Brief is that a comprehensive FTA is desirable as an anchor for Ukraine's economic reforms and its security, but its passage in the US Congress would bundle together some of the most contentious issues in US trade politics—agriculture, investor protection, government procurement, digital rules, and market access—into one high-salience vote. This could be controversial. In the case of Ukraine, however, as it did in the case of the first bilateral postwar US FTA, which was signed with Israel in 1985, the small volume of trade and the positive national security implications of the agreement should mitigate most of these concerns by allowing the agreement to be treated as a special case.

Nonetheless, while lacking the impact of a full-fledged FTA, a step-by-step path toward a US-Ukraine free trade agreement may be more feasible. Policymakers would advance narrower, strategically defensible agreements—on customs facilitation, critical minerals, supply-chain security, or regulatory cooperation—that can attract bipartisan support without forcing Congress to face every trade-off at once.[43]

Early modules can help create political momentum for additional agreements.[44] Agreements on trade facilitation, investment protection, critical minerals, and reconstruction-related supply chains could generate immediate export growth, job creation, and visible Western commercial engagement in Ukraine. These early wins build domestic constituencies—in Ukraine, the United States, and Europe—with a direct stake in continued integration, making a later, comprehensive FTA not only more credible but also more politically sustainable.

It should be acknowledged that ultimately EU accession will be the core of Ukraine's external reconstruction strategy. This implies that a US-Ukraine FTA should be designed to complement, rather than compete with, EU integration. The risk of regulatory duplication or conflict is real. Divergent standards or overlapping obligations could impose unnecessary compliance costs and strain administrative

42 Reuters, "EU executive weighs idea of quick, but limited membership for Ukraine," January 16, 2026.

43 This could be similar to the first agreement under the US-Taiwan Initiative on 21st-Century Trade that entered into force December 10, 2024, which is an "early-harvest" rules-and-facilitation package (not a tariff-cutting FTA) built around five core areas: customs administration and trade facilitation, good regulatory practices, services domestic regulation, anti-corruption, and provisions for small and medium enterprises.

44 There is also precedence for this type of approach. The US FTA with Jordan in 2001 was the culmination of a process that began with the creation of Qualified Industrial Zones (QIZs). Established in 1997 the QIZs granted duty-free access to the US market for goods produced in designated Jordanian zones using a specified share of Israeli and Jordanian inputs. The impact was rapid and significant. The QIZs attracted foreign investment—especially in apparel—created tens of thousands of jobs and turned the United States into Jordan's largest export market within a few years. By tying Israeli suppliers, Jordanian workers, and American consumers into a single production network, the zones raised the economic cost of political backsliding and gave all parties a stake in stability. The QIZs served as a bridge to full trade integration. Their success demonstrated Jordan's ability to operate under US trade rules and built political support in Washington for a deeper relationship.

capacity. To mitigate these risks, a US-Ukraine FTA should defer to the EU acquis—the body of common rights and obligations that is binding on all the EU member states—where possible, emphasize mutual recognition rather than harmonization, and avoid commitments that would complicate accession negotiations.

It seems unlikely that any ceasefire or peace agreement will provide certainty to foreign investors until it has been in place for several years, perhaps a decade. In the meantime, an investment guarantee provided by the United States and/or the World Bank—a guarantee that explicitly covers war risk—should accompany the FTA.

In sum, by locking in preferential access to the world's largest consumer market, protecting investors, and integrating Ukraine into Western industrial networks, these arrangements would transform security guarantees from abstract promises into concrete economic interests for the United States and Europe. By binding the United States and Ukraine together in a long-term trade pact, Washington would demonstrate strategic commitment beyond short-term aid or military support.

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