

DIVERSIFICATION OF THE UKRAINIAN FOREIGN TRADE IN THE AGE OF GLOBAL CHALLENGES

Valentyna Pidgirna, Prof.

Chernivtsi National University, Ukraine

Natalia Filipchuk, Prof.

parfenova.nv@gmail.com

Abstract

The article reveals topical issues, i.e. challenges and priorities that were faced by Ukraine towards creation of free trade area. On the one part, the article substantiates a number of unilateral preferences for Ukraine being provided and valid till December 31, 2015. On the other part – a number of obstacles that emerged en route of integration, including battle actions in the territory of Ukraine, crisis period, a “universal cure” from which is still not invent and may others. As is known, a diversification policy is still valid; hence a point of necessity for maximum compliance of Ukrainian goods with the requirements of the world public should be raised on the agenda of business community.

Key words: crisis, export, globalization, import, integration, services.

Introduction

Transformation of the processes for creating competitive advantages of the countries worldwide allots scientists and politicians a task of theoretical comprehension of regularities of separate national regions influence on international competitive growth of the states, as well as creation of an effective mechanism for harmonization of regional and nationwide interests in foreign economic area, which preconditions an extreme urgency of the matter under inquiry.

Among scientific works, studying theoretical fundamentals of international competitive advantages of the national regions, forms of interregional competition, factors and assessment methods of the international competitive status of sub-national formations, models of innovative territorial

development, as well as problems of developing effective regional competitive strategies, the following works of Ukrainian and foreign scientists are worth mentioning: L. Antonyuk, Z. Varnalii, V. Heyets, O. Granberg, B. Gubskiy, M. Dolishnii, M. Kiting, P. Krugman, D. Lukianenko, Yu. Makogon, R. Martin, Ye. Panchenko, M. Porter, A. Poruchnyk, S. Romaniuk, A. Rumiantsev, S. Sokolenko, A. Pilipenko, T. Tsygankova, B. Chuzhykov, O. Shvydanenko, I. Shkola, O. Shnypka.

The goal of this paper is to study of the characteristics systems that determine regional dynamics and statistics in the global economic space with in adaptation period.

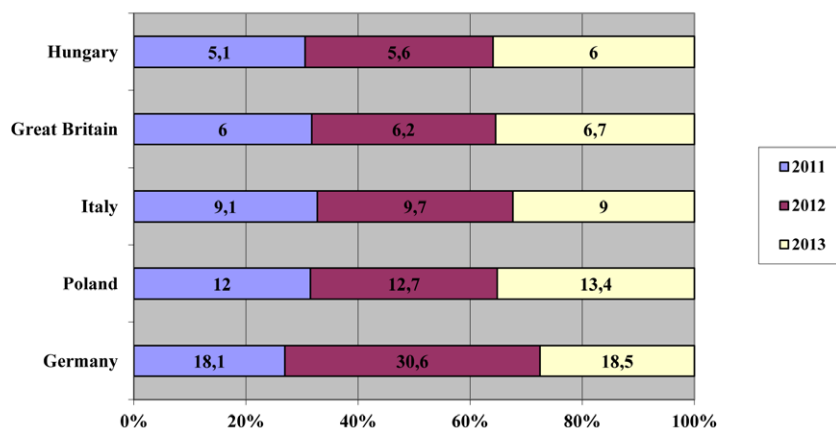
1. Foreign trade of Ukraine

Globalization processes that has started since 70-80s of the XX century still continue in the global economy nowadays (XXI century), causing bifurcational restructuring in the global economy and peculiar dichotomy of the states trade flows due to duality of the states in terms of direction for the development. All this resulted in significant changes in the production nature of the global economic development, international labor division and caused involvement into the international economic relations almost worldwide (Siebert 2007: 369; Nelson 1996: 38).

Diversification of the foreign trade plays a heavy role in determining state's position on the global market as far as separate states receive a lion's share of incomes owing to the export of the goods into other states. As of today trade and economic relations of Ukraine are represented by over 150 states in various parts of the globe with different expansion and effectiveness (Gonchar, Babirad-Lazunin 2013: 12-67).

As of the end of 2013 Ukraine occupied the 22nd place among trading partners of the European Union, making 1.1% of the total volume of the foreign trade of the EU. Analyzing dynamics of bilateral trade over the period of 2011-2013, it worth specifying an increase of the EU share in the foreign trade of Ukraine with the goods and services from 29.6% to 32.1%. The following states were main trade partners of Ukraine in the European Union: Germany (18.5% of the foreign trade turnover (FTT) within EU), Poland (13.4%) and Italy (9%). The information given above is depicted on the Figure 1.

Figure 1. Main trade partners of Ukraine in the EU over the period of 2011-2013

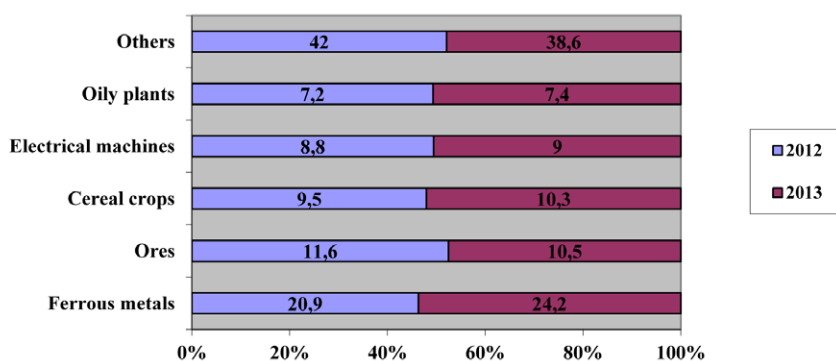


Source: compiled by the author on the basis of the data (Eurostat 2012: 162).

Notwithstanding that Germany occupies the first positions among states-trade partners of Ukraine in terms of FTT, major part of the Ukrainian export fall within Poland (in particular: fuel, raw materials and semi-finished products, tools and machines, industrial and transport equipment, clothes and household appliances) and Italy (in particular: machines, equipment, fabric, fruits, vegetables, textiles, clothes, leather goods, engines, home appliances, chemicals, and marble) with Germany still being the leader regarding supply of the goods and services into Ukraine (State Statistics Service of Ukraine 2014). In 2013 this state enhanced cooperation with other states of the EU, in particular, with France and Netherlands in trade in goods, inter alia, goods of chemical and oil industry and transport equipment are in demand in Ukraine.

However, as to the disposition (location determination) of this state in the system of global economic relations and international division of labor, based on objective assessment of the situation, Ukraine is hardly possible to recognize as ready for the involvement into the global economic space on parity conditions, as far as the share of export in the GDP in 2013 made up 47%, of import – 55%. In other words, we can observe an import dependence of Ukraine upon foreign supply; but the real problem is if raw materials were not exported and finished products were imported. As we may see in the breakdown of the exported goods there is a very non-effective raw material-oriented tendency (Figure 2).

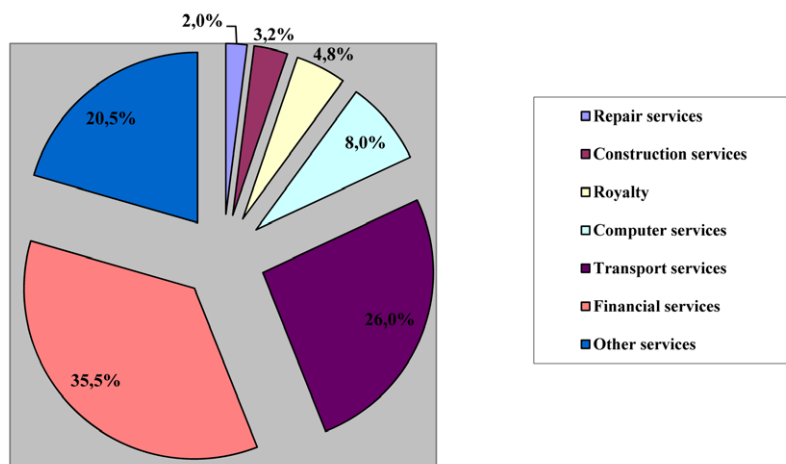
Figure 2. Export structure of the goods over the period of 2012-2013



Source: based on State Statistics Service of Ukraine, 2014.

As for the export of services to the EU countries over the same period, the largest share falls to transport (65.7%), various business, professional and technical services (12.7%), and repair services (4.5%). This is presented in Figure 3.

Figure 3. Type structure of the export of services to the EU countries over the period of 2011-2013



Source: based on State Statistics Service of Ukraine, 2014.

There has been an increase of the share of computer, state services and repair services over the recent period, but it much less that the share of import of these services from the EU countries (State Statistics Service of Ukraine 2014). Study of foreign trade in services from the point of its type structure conformed extensive nature of the domestic non-material area development as far as the share of innovative services both in the export and import of the services of Ukraine is insignificant.

According to the results of the first half of the year 2014 export of the goods from Ukraine made up \$28.62 billion with 40% of this volume being generated by 25 Ukrainian companies, in particular, such metallurgic giants as PJSC “ArcelorMittal Kryvyi Rih”, Azov Iron & Steel Works, Illich Iron & Steel Works; Kernel-Trade with the agro-industrial products; Motor Sich with engineering products and others (Forbes 2014a). Main export category of Ukraine is ferrous metals that over the first half of the year 2014 were exported to the amount of \$7.3 billion.

Goods and raw materials to the amount of cymy \$28.1 billion were imported into Ukraine over January-June 2014 with oil and gas industry accumulating the largest share, in particular, 12 companies that did own business in this field. Common trend is not a new one for Ukraine – it has started since the end of 90-ies of the previous century. All enterprises, from the activity of which it was possible to gain maximum profits, that were of great significance for Ukraine, owing to a mechanism of a false bankruptcy were transferred into the private ownership.

Based on the results of the first half of the year first three leaders of the oil and gas industry included: National Joint Stock Company Naftogaz of Ukraine, WOG Trading and OKKO-Business; it's not worth emphasizing type of ownership of the given objects. In 1998 a decision was made to centralize for the state all purchases and allocation of the natural gas within Ukraine, for the purpose of which National Joint Stock Company Naftogaz of Ukraine was established. Since that time the company has been the largest importer of gas. Not any private company managed to overcome import data of this state company.

Lack of sufficient quantity of coking coal in Ukraine makes Ukraine dependant from this type of raw material and makes this direction of metallurgy one another classical leader of imports. Public Join-Stock Company “Alchevsk Iron & Steel Works”, Avdiivka Coke and Chemical Plant, not to forget about pharmaceutical industry and, in particular, BaDM, LLC, which is involved in distribution activity importing a large assortment of medicinal products into Ukraine (Forbes 2014b). It's no wonder that Kyiv and Kyiv oblast still remain as import-oriented regions of Ukraine. Characteristics of Dnipropetrovsk oblast remained almost unchanged, and Donetsk oblast

that ended up in the very center of warfare, drop out of the trio of leaders in terms of the import consumption.

Percentage of the European Union countries in the import of goods in 2014 compared to the first half of 2013 remained the same and made up 35.4% of total volume, out of another states – 64.6% with import of the goods from Belarus having increased (+14.8%) and with the rest of the largest countries-partners having decreased. In structure of imports major reduction occurred at the expense of engineering products, metallurgy and chemical industry.

Thus, notwithstanding intensiveness of supply and not small figures, while characterizing export operations structure, it should be noted that their basis over the period of 2011-2014 was formed by the products of low technological pattern, first of all – plant growing industry, mined fossils and minerals, as well as raw materials with low level of technologic processing. Last 20 years they formed a major income part of the state budget of Ukraine, and inflow from their sale determined expenditures of the state for external and internal programs.

Absence in the domestic economy of the independent incentives modal for innovative development objectively determine a disadvantaged-peripheral place and role of Ukraine, thus eliminating the possibilities to participate in strategic highly-effective types on equal partnership terms. A definite confirmation of it is domestic industry orientation towards production and export of the goods of the III and IV technological modes that ran their course in the developed economies in the middle of the 1970–ies. According to the III (57.9%) and IV (38.2%) technological modes over 96% of industrial products are manufactured in Ukraine. Ukraine exports (according to the III technological mode) ferrous metallurgy, electrical energy, railway transport, and non-organic chemistry etc. (Lukianenko 2006: 816).

Import structure consists of the V mode products, namely: electronic equipment, computing machines, telecommunications, information services, manufacturing of which in Ukraine make up only 13.1%. It's worth mentioning that only 4.5% of investments fall on production of this group of the goods.

The basis of the mentioned above data includes confirmation of the orientation of so-called old industrial regions of Ukraine on foreign sales markets of their main production – metals and steel (Andriichuk 2013). Nowadays four out of five ton of metal produced in Ukraine go for export. But due to long-lasting recession in the European Union Ukraine loses its main sales market of metal and will have to change its orientation towards countries of the Middle East, North Africa and India, thus losing advantageous geographic position on future prospective.

The other competitive advantages are also being lost, such as access to cheap iron ore and coking coal and, of course, to cheap natural gas. The question at issue is that the markets on which Ukraine is targeted are non-stable, as far as in the Arabian states over the recent 5 years is to be a reconstruction of generating capacities for 50 million ton of products per year, export of steel out of China in 2012 increased over 2.3 times. Peculiar characteristics of the modern stage of “necroindustrialism” in Ukraine include not only running at loss of over than a half of the industrial enterprises, as well as critical level of wear and tear and obsolescence of capital funds (Gavrylova 2014: 41-43).

In support of this as of the end of 2014 foreign trade of Ukraine with the EU countries was characterized by a negative export surplus, unchangeable share of the domestic export to the European Union. It should be emphasized that while a share of the imported from the EU goods has increased, a share of the imported services has been gradually decreasing. Major characteristics of bilateral foreign trade flows, as usually, remained a raw material oriented export and high-technology import. The expert believed signing of the Association Agreement to be a possibility of changing such situation.

And finally it happened, on September 16, 2014 the Verkhovna Rada of Ukraine and the Council of the European Union simultaneously ratified the Ukraine – European Union Association Agreement. Of course, to make it really effective it is necessary that 28 EU member states and the European Atomic Energy Community and the European Parliament ratified it (Uriadovyi courier 2013: 11-12).

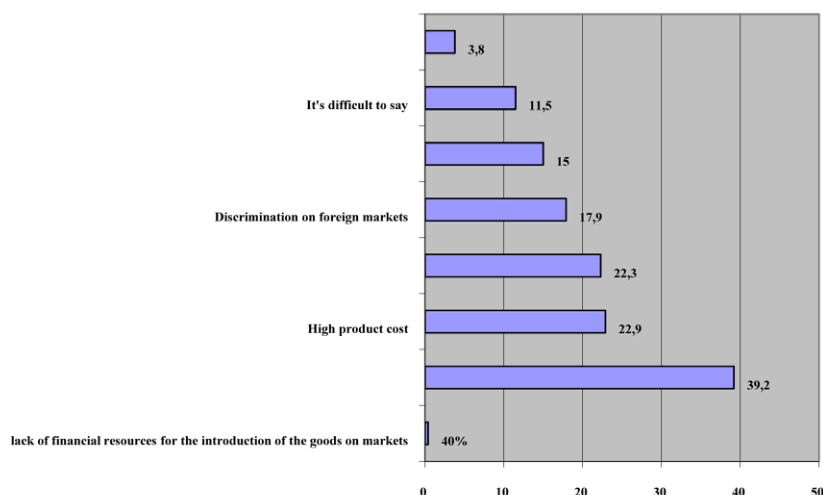
And for the time being there is a temporary application of the provisions on creating in-depth and overall FTA+, scheduled for January 1, 2016. Making concession, the EU Council approved prolongation of the unilateral trade preferences for Ukraine that have been in force since April 2014 till the end of 2015. In other words, such preferences stipulate abolition of a duty for the Ukrainian goods, exported to the EU and saving of duty rates for the goods imported into Ukraine. It is clear that trade preferences are the part of a package of financial and economic assistance. And also quotas for supply of the goods groups in 2015 were defined:

- sugar – 20.07 thousand ton,
- alcohols – 27 thousand ton,
- beef – 12 thousand ton,
- pork – 40 thousand ton,
- dairy products – 8 thousand ton,
- poultry meat – 36 thousand ton,
- cereals – 1200 thousand ton.

Moreover, one should remember that effect of trade preferences can be suspended unilaterally in the event of determining breaches of the legislation, i.e. products exported to the EU countries must comply with the certificate of origin EUR 1 (Andriichuk 2013).

According to the result of a questionnaire survey among 450 respondents as to study of the obstacles preventing economic entities from full using of the advantages of signing the Ukraine – European Union Association Agreement 39.5% out of 450 questioned entities of Chernivtsi, Ivano-Frankivsk and Lviv oblasts mentioned “lack of financial resources for the introduction of the goods on the European countries markets”. More detailed information is given on the Figure 4.

Figure 4. First priority steps towards successful integration “Ukraine-EU”



Moreover, economic entities understand that signing of the agreement raises obstacles and challenges for the purpose of full realization of possibilities. And speaking today about the first priority steps that are to be taken to use advantages of membership on equal basis, the respondents mentioned: 1) successful completion of the ATO operations – 76.9% out of 100% respondents; 2) fight against corruption in the state authorities and judicial system – 40.1%; 3) increase of the state authorities transparency – 26.3%; 4) decrease of the tax rates – 24.4%; 5) increase of the government purchase transparency – 23.7%; 6) simplification of the taxation administration – 19.6%; 7) lack of exact economic policy – 9.6%.

As we may see in practice for the major part of human population integration bears in itself also significant threats, causing division of the state

for “civilized center” and “province area”, intensifying their contrast in social and economic development.

Moreover, economic entities understand that signing of the agreement raises obstacles and challenges for the purpose of full realization of possibilities. And speaking today about the first priority steps that are to be taken to use advantages of membership on equal basis, the respondents mentioned: 1) successful completion of the ATO operations – 76.9% out of 100% respondents; 2) fight against corruption in the state authorities and judicial system – 40.1%; 3) increase of the state authorities transparency – 26.3%; 4) decrease of the tax rates – 24.4%; 5) increase of the government purchase transparency – 23.7%; 6) simplification of the taxation administration – 19.6%; 7) lack of exact economic policy – 9.6%.

Ukraine requires sustained growth of economics and increase of welfare of human population and hopes to achieve this goal en route European integration. It should be mentioned the experience of two states that passed through the integration transformations. Thus, on the one part, the experience of the European integration of Poland, which is of peculiar significance for Ukraine, as far as after collapse of communism system both states turned out to be in similar starting conditions. In addition, it is known that Poland moved towards the EU during 13 years – starting from the Association in 1991 and till accession in 2004. At the beginning of these processes as says O. Motsyk, a former ambassador of Ukraine in Poland, a situation in the past is very common to the one, in which Ukraine turned to be nowadays: skepticism of Western states and Russian resistance, presence of foreign army in the territory of Poland, low level of public support in favor of entrance into the NATO and EU, fear of losing independence etc. Thus, the Poles started working hard. One of major internal factors that finally led Poland to the European Union, was the fact that various political forces that consequently replaced one each other in the government of Poland, despite short period of discussions reached consensus in vision of key priorities of internal and external political development of the state, the essence of which is possible to shortly express as “returning back to Europe”.

A significant factor of the European integration of Poland was existence of “Weimar Triangle” – a distinct form of cooperation between Poland, Germany and France. Their support provided Poland with a great advantage. Mainly it was a political advantage, when the states of the West seriously persuaded Poland that, regardless of anything, it would become a member of the EU. Along with that such support provided Poland with considerable financial inflows owing to union programs, and, in particular, – PHARE.

The most feasible of them were direct donations out of the EU budget. They were received within the framework of implementation of two EU

priorities, namely, policy for alignment and support of the agriculture. In general, from the moment of becoming the EU member (May 1, 2004) Poland received almost 85.3 billion Euro. According to the directions, within the framework of the alignment policy Poland received 52.8 billion Euro, and within the limits of joint agricultural policy – additional 28.2 billion. Only in 2012 out of the EU budget did Poland receive almost 12 billion Euro.

It should also be noted that the amounts mentioned were received in the budget and were spent according to the directions, complying with the titles of the programs with the largest share of the costs being capital expenditures that were not possible to aim at other tasks. Currently the EU targets a considerable volume of funds on modernization of the Poland's infrastructure (building of highways, airports, modernization of railways, and municipal park renovation); implementation of energy-efficient measures (starting from the development of projects of "green" energy till re-equipping of the thermal power plants towards gas consumption); support of R&D; development of small business; financing of education and science, etc.

On the other part, European achievements are not so considerable, which is caused by existence of a number of problems of integration nature in the EU (Kremen 2009). Upon becoming a member of the EU the economy of Greece barely could keep body and soul together: increase of the GDP over the period of 1981 – 1990 made up only 0.7% and it was three times lower than in the EU-15. Currently Greece goes through the larger economic slump than after it becoming a member of the EU; and even partial debt remission by the global community didn't work out. The situation with state debts in the CEE also worsened: with the beginning of the crisis they grew up from 38 to 49% of the GDP, and in Hungary – up to 80% and event exceeded Maastricht criteria. Typically, in those EU states where level of state debt compared to the GDP was higher there was a higher deficit of the state budget. Practically, debt crisis has considerably caused a budget crisis, increase of state debts and decrease of the GDP growth (Uriadovyi courier 2013: 11-12).

Where should we look for the gap? The answer is a simple one. As of today, in fight against modern economic crisis in Europe a lot of governments rely not upon recommendations of J.M. Keynes, P. Krugman, but on the recopies of the IMF, reducing state expenditures and investment programs, thus reducing demand and forcing economy into recession. That is why it would be better to emphasize the problem of employment, which occurs just after the implementation of the reforms and which is impossible to solve through reduction of the state expenditures (Krugman 2012: 259; Keynes 1936: 362).

As it may be observed in practice, unemployment not only negatively affects economy, restraining its growth, but also demoralizes people. This opinion is supported by Heyets and Grytsenko, specifying that in Ukraine, unfortunately, the unemployment problem is not devoted sufficient attention (Kistersky 2014: 33-51).

The year of 2014 is a year of great achievements and losses for Ukraine. On the one part, the Revolution of Dignity toppled a pro-Russian regime of Yanukovych, which suspended movement of Ukraine towards Europe, quickly degraded and acquired characteristics of dictatorship. Later on the Ukraine – European Union Association Agreement was signed and ratified; pre-term presidential and parliament elections took place that changed the government. On the other hand, domestic economy suffered considerable losses. However, they result from not only external aggression, but, firstly, from accumulated system deformations, lack of basic conditions of sustainable economic development.

Conclusions

Ukraine strives to comprehend itself in the geographical and political space in the context of global civilization development, to determine its priorities, real national interests, strategy and tactics of their implementation and to elaborate such foreign policy behavior that would, on the one part, comply with general trends of the modern global development, and, on the other part – contribute to the largest extent to the implementation of own national interests, growth of its international authority and influence on international events.

To this effect one should remember that main purpose of the state foreign economic policy lies in creation of the conditions for establishing long-term competitive advantages of domestic producers. After all, in addition to the taxes and social payments being too high in Ukraine for the Economics of Transition with unstable and inconstant market relations and underdeveloped entrepreneurship, they are unified for all payers, regardless of a multimillionaire or a small entrepreneur hardly keeping soul and body together. In order to apply competitive advantages in the long run Ukrainian economy requires its activity to be focused on: “as yet” available natural and resource potential, available labor force, industry development, potential advantages in the development of high technologies etc. But these are only possible potential advantages that are to be developed.

In order to support effective demand and induce investment development programs the government must carry out active and timely regulatory policy. It may be creation of state non-profitable credit and financial institutions

for the implementation of the development projects. In order this would not result in upturn in inflation, resources should be introduced into turnover for creation of actual costs. In addition, similar approach would contribute to reduction of the interest rates. And open and public activity of these institutions under the control of public would create the “islands” of non-corrupted relations, which is of great significance for Ukraine, sinking in corruption. The abovementioned approach may be applied in the “crisis and integration” period for Ukraine for the purpose of reconstructing elements of market infrastructure. The implementation of this formula will also allow attracting multibillion monetary resources of the state’s population that are outside the economy.

References

1. Andriichuk, V.G. (2013), Dichotomy of intensive cure and progressive dynamism of global economy and disposition of Ukraine in the system of international economic relations, available at: http://usufit.edu.ua/images/document/ZT_3_2013/3-2013.pdf.
2. Cabinet of Ministers of Ukraine (2014), On approval of the list of goods, the import and export of which subject to licensing, and quotas for 2014: Decree d/d 25.12.13 No. 950, Uriadovyi courier. No. 243, pp. 11-12.
3. Eurostat (2012), available at: http://epp.eurostat.ec.europa.eu/cache/ITY_OF-FPUB/KS-AF-07-001/EN/KS-AF-07-001-EN.PDF (accessed: 23 August 2014).
4. Forbes (2014a), Top-25 exporters of Ukraine: Forbes ranking, available at: <http://forbes.ua/ua/business/1384704-top-25-eksporteriv-ukrayini-renking-forbes>.
5. Forbes (2014b), Top-25 importers of Ukraine: Forbes ranking, available at: <http://forbes.ua/ua/business/1364523-borgi-ukrayini-v-2014-roci>.
6. Gavrylova, M. (2014), Abolition of duties on export of the goods to the European Union: the most significant about the import procedures of the EU (Part 1), Everything about accounting. No. 106, pp. 41-43.
7. Gonchar, I.A., Babirad-Lazunin, O. (2013), Nature of establishing foreign trade of Ukraine: statistical assessment. Statistics of Ukraine, pp. 16-27.
8. Keynes, J.M. (1936), The general theory of employment, interest and money. Macmillan, London.
9. Kistersky, L.L. (2014), To and a depression economic perception of the Bible Economy of Ukraine. No. 1, p.33-51.
10. Kremen, O.I. (2009), Transparency of economy and directions of its assessment, available at: http://www.nbuv.gov.ua/portal/Soc_Gum/Ekpr/2009_31/Zmist/1PDF.pdf (accessed 20 August 2014).
11. Krugman, P. (2012), End this depression now! W.W. Norton Company, New York, London.

12. Krynytskyi, I.Ye. (2013), Separate aspects of adoption in Ukraine of global experience of tax and legislative regulation of import of goods that are the source of the environmental contamination, in: *Ecologic taxation: collection of scientific papers based on the results of scientific and practical measures*. SRI of financial law. Alerta.
13. Lukianenko D.G. (2006), *Management of the international competitive advantages under the conditions of economic development globalization: a monograph*. KNEU.
14. Nelson, R. (1996), *The evolution of competitive or comparative advantage: A preliminary report on a study*: IIASA Working Paper No. WP-96-21. International Institute for Applied Systems Analysis, Luxembourg.
15. Siebert, H. (2007), *The world economy. A global analysis – revised and enlarged*. Routledge, Abingdon.
16. State Statistics Service of Ukraine (2014), available at: <http://www.ukrstat.gov.ua/> (accessed 26 August 2014).