

# POSITION OF UKRAINE IN THE INTERNATIONAL ECONOMY

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## **Abstract:**

*The article deals with the topical questions, namely, the priorities and challenges that Ukraine faced with on the way to the FTA creation. This integration is seen as a factor of civilization development of Ukraine. From the one hand, there were grounded several one-legged trade preferences given to Ukraine. From the other one, there were considered several obstacles that appeared on the way of integration, among them: the combat operations in our country, crisis period without any “universal remedies” for and the other ones.*

*The implementation of economic and social policy in Ukraine in the future will greatly depend on how successfully the country will be implemented in practice the model of open competitive economy.*

**Key words:** economic development, imports, exports, foreign programs

**JEL classification:** F12, F13, F17

## **1.INTRODUCTION**

Modern processes of developing worldwide economic system are strongly connected with integration and economic correlation. Transformation of processes of organizing competitive advantages of world countries, that are replaced from national to subnational level, set the task for scientists and politicians to theoretically rethink patterns of influence on detached national regions to enhance international competitiveness of states. Moreover, it requires creating much more effective mechanism of regional and national interests' harmonization in foreign economic area. Outward sector influences national economy via goods and services, labor force and capital movement. The main condition of effective Ukrainian economic development is to increase quantity of foreign trade. However, the Ukrainian economy is extremely sensitive to external influences as a result of the underdeveloped domestic market, technological lag, and low diversification of export and import structure.

Increasing the sustainability of the national economy to negative external influences, diversification of external markets, activation of trade and financial flows is one of the priority tasks at the present stage, which also updates the issues **of subject under study**.

Problems of the state and prospects of development of foreign economic activity in Ukraine is devoted to a lot of scientific works. A significant proportion of them occupies theoretical and methodological materials. Many scientific papers have been given attention to empirical analysis and research of the perspective dynamics of development foreign economic operations in Ukraine. To the authors who carried out research in this area, can be attributed A. Galchinsky, V. Geyets, A. Kinakh, V. Seminozhenka [1], S. Bestuzheva [2], O. Kyrychenko [4] and many others. These scholars have focused on applying aspects of retrospective analysis of the development of foreign economic activity (FEA) in Ukraine, but did not submit their own forecasts for identifying the position of Ukraine in the world economic system.

Considerable attention to the problems of development of foreign economic activity is dedicated to such scholars as Ya. Zhalilo, Ya. Basiluk, Ya. Belinskaya [5], D. Lukianenko, A. Poruchnik [6], L. Antoniuk and many others. These authors studied the problems of development

of foreign economic activity in the context of considering geopolitical prospects of Ukraine, publishing not only analysis but also proposals for improving the competitiveness of the economy and the efficiency of foreign economic activity of domestic enterprises, as well as improvement of the state regulation policy, etc. All these issues are considered in full, but not sufficiently substantiated with empirical material, which would allow to formulate more precise conclusions about possible trends of development of foreign economic activity of Ukraine in future.

However, despite a large number of studies, it is not enough attention is paid to distinguish problems of developing foreign economic activity of Ukrainian enterprises and finding ways to overcome these problems.

The purpose of the study is to analyze the structure of foreign trade in goods and services of Ukraine, in terms of the product structure and in general, identifying the main trends and directions of its development.

## 2. METHODOLOGY

Theoretical and methodological foundations of the study were generally scientific and special methods of scientific knowledge, the application of which allowed to achieve the goal:

1) system - to reveal the essential characteristics of trading operations in terms of the product structure. Namely, it was found that the biggest share of goods in the structure of exports belongs to ferrous metals, and then for grain crops, the latter position is fixed on products from slags and ashes.

2) the methods of theoretical generalization - to determine the proportion of exports and imports of goods and services in the foreign trade turnover of the country. The rationale is that if by 2014 Ukraine had more trade contracts with CIS countries, then after 2015 this trend would change and a larger share of both exports and imports came from the EU.

3) In the context of the use of the methods of comparison and systematization - an analysis was conducted and on this basis an effective mechanism of trade empiricism was substantiated.

## 3. IMPERATIVES REFORMATION ECONOMY

Diversification of foreign trade plays an important role in determining the position of the country on the world market, because individual countries receive a larger share of income due to the export of goods to other countries. Currently, Ukraine's trade and economic relations are carried out in more than 150 countries in different regions of the globe, with different scales and efficiency.

The dynamics of export-import operations in Ukraine in recent years has a steady tendency to change [9; 10]. Let's analyze the foreign trade balance of Ukraine with other countries, (table no. 1).

**Table no. 1. Foreign trade in goods and services of Ukraine with countries of the world (including EU countries) between 2015 and 2017. million of US dollars**

	Export			Import		
	2015	2016	2017	2015	2016	2017
Total	65422,5	47863,7	46229,6	60801,8	43039,4	44576,2
Goods	53901,7	38127,1	36361,7	54428,7	37516,4	39249,7
Proportion,%	82,4	79,7	83,4	89,5	87,2	78,2
countries of the CIS	14882,3	7806,1	7237,5	17276,9	10485,5	10941,7
Proportion, %	27,6	20,5	16,6	31,7	27,9	27,8
other countries of the world	39019,4	30321,0	29124,2	37151,8	27030,9	28416,9
Proportion, %	72,4	79,5	83,4	68,3	72,1	72,2
Including EU countries	17002,9	13015,2	13496,2	21069,1	15330,2	17140,8
Proportion,%	31,5	34,1	37,1	38,7	40,9	43,7
services	11520,8	9736,6	9867,9	6373,1	5523,0	5326,5
Proportion, %	17,6	20,3	16,6	10,5	12,8	21,8

countries of the CIS Proportion, %	4034,3 35,0	3544,8 36,4	3727,9 37,8	1204,0 18,9	839,6 15,2	672,6 12,6
other countries of the world Proportion, %	7486,5 65,0	6191,8 63,6	6140,0 62,2	5169,1 81,1	4683,4 84,8	4653,9 87,4
Including EU countries Proportion,%	3991,6 34,6	3521,4 36,2	3498,9 35,4	3148,8 49,4	2750,1 49,8	2400,7 45,1

Source: Own elaboration using data from [9-10]

Table no. 1 shows that the share of trade in goods with EU countries has a tendency to increase and in 2017 it was 37.1%, which is higher than the index in 2015. However, trade surpluses with the EU countries in 2017 can be traced to 3,506, 7 million dollars USA. As a result, the increase in the share of trade in goods with other countries of the world (including the EU countries) significantly decreased trade with CIS countries and in 2017 it was 16.6%. Exports of services to the EU countries during 2015-2017 had a positive upward trend. In turn, the share of exports to the CIS countries increased, which in amounted to 37.8% in 2017. As for the import of goods, it can also be said that the predominant part was occupied by EU countries. Thus, imports of goods amounted to 43.7% in 2017, while import of services decreased from 49.8% to 45.1%. The largest volumes of imports from the EU countries in 2016-2017 were energy materials, oil and products of its distillation - 22.3% and 11.4%, mechanical and electrical machinery -17.3% and 21.6%, and chemical industry products - 17.6% and 19.6% of the total volume of imports. The main commodity groups of Ukrainian exports are shown in table no. 2.

**Table no. 2. Section of the commodity structure of Ukrainian exports to the EU countries between 2016 and 2017**

Name (commodity group)	Export volumes (millions of US dollars)	
	2016	2017
Ferrous metals	2623,4	1292,1
Grain Cultures	1625,9	761,2
Electric machines and equipment	1434,1	776,2
Ores, slag and ashes	962,5	390,9
Wood and wood products	712,7	393,6
Fats and oils of animal or vegetable origin	678,3	724,7
Nutrition and fruits of oilseeds	645,3	677,4

Source: Own elaboration using data from [9; 13]

Table no. 2. shows that the largest volumes of exports to the EU countries in 2016 and 2017 were products of the agro-industrial complex and the food industry - 28.2% and 28.8%, ferrous metals - 20.2% and 19.8%, electric machines and equipment - 11.0% and 11.9%, mineral products - 7.4% and 6.0% of total exports. In the structure of export of goods to the EU countries, according to the results in 2017, it can be seen that among the goods in the agro-industrial complex and food industry the largest share was allocated to grain crops - 40.2% of the total volume of goods of the agro-industrial complex (including corn - 31.5% , wheat - 7.3%), fats and oils of animal or vegetable origin - 16.8% (sunflower oil - 14.1%), seeds and fruits of oilseeds - 15.9%.

Ukrainian partners imported goods into our country from Germany - 25.9% of the total imports (mineral fuels, oil and products of its distillation, mechanical machines, means of land transport, except for railways), Poland - 15.2% (fuel mineral, petroleum and products of its distillation, electric machines, plastics, polymer materials), Hungary - 10.5% (mineral fuels, petroleum and products of its distillation, electric machines, plastics, polymer materials).

**Table no. 3. Structure of foreign trade activity of commodities with EU countries in 2017**

Ukrainian partners in export	%	Ukrainian partners in import	%
Italy	15,2	Germany	25,9
Poland	15,2	Poland	15,2
Germany	10,2	Hungary	10,5
Spain	8,0	Italy	6,4
Hungary	7,0	France	5,8
Netherlands	7,0	United Kingdom	3,7
Other countries	37,4	Other countries	32,5

Source: Own elaboration using data from [13; 14]

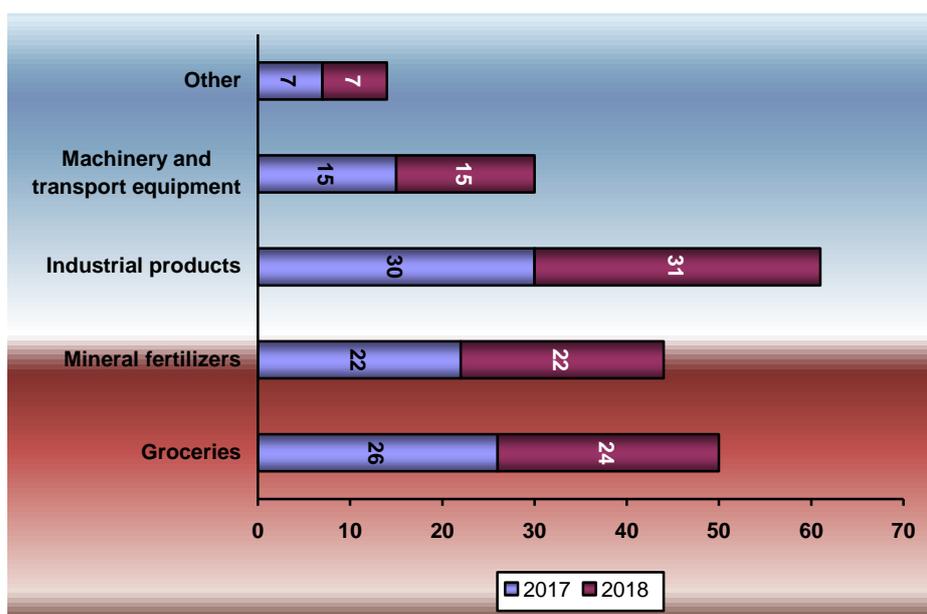
Based on Table no. 3, it should be noted that in 2017 the largest export deliveries were made to Italy - 15.2% of the total exports to the EU (ferrous metals, cereals, fats and oils of animal or vegetable origin), Poland - 15,2% (ferrous metals, electric machines, ores, slag and ash) and Germany - 10.2% (electric machines, clothing and accessories for clothing, textile, mechanical machines).

It is worth noting that the statistics of foreign trade in 2018 showed an ambiguous dynamics. On the one hand, exports of goods from Ukraine grew by 9% and reached \$ 47.3 billion. On the other hand, the growth rates significantly slowed compared to the 2017 indexes.

As in the case of total exports, the main reason for the slowdown in exports to the EU is the reduction in the supply of agricultural products and food products, which even reflected in slight changes in its structure, Fig. 1

In 2018, the EU remained the key destination for Ukrainian commodity exports, largely due to better market access within the framework of a deep and comprehensive Free Trade Area (DCFTA).

After a sharp rise by 119% in 2017, export of soybeans decreased by 35%. But a significant factor was a reduction of almost 26% of EU exports of sunflower oil, which until then occupied the second position in the structure of deliveries to this market. It is noteworthy that the supply of sunflower oil to "other markets", for example to India, grew, that is, exactly European direction suffered.

**Figure no. 1. The structure of Ukraine's commodity exports to the EU in 2017-2018**

Source: Own elaboration using data from

But in the export of non-agglomerated iron ores and concentrates, the situation is the opposite. While total export of this product declined, export to the EU continued to increase in 2018, albeit slower, while supplies to Russia and the rest of the world suffered.

Regarding the disposition (determination of place) of our country in the world system of economic relations and WFP, then, based on an objective assessment of the state of affairs, Ukraine can hardly be recognized as ready for inclusion in the world economic space on parity terms, since the share of export to the structure of GDP in 2018 reached 45.2%, import - 53.8%, in fact there is such an import dependence of our country on external supply. This tendency has been observed for more than ten years. However, this is a half-way, if we did not export raw materials in the form of exports, and imported finished products in the form of imports. Thus, in the context of exports, there is an extremely inefficient raw-oriented nature.

Describing the structure of export operations, it should be noted that its basis are low-technological products, primarily crop production, mined natural resources, as well as products with a low level of technological processing. For the last 20 years, the backgrounds formed the bulk of the state budget revenues, while revenue from their sale was determined by the state's spending on domestic and foreign programs.

The inability of Ukrainian producers to enter foreign markets with high-tech, competitive products, despite membership in the World Trade Organization, is due to the low quality of domestic products and its "moral deterioration." This explains the changes in the geographic structure of exports of countries: the share of those countries, that agree to buy non-high quality Ukrainian goods at a low price, is growing.

It is worth remembering that the main goal of the state foreign economic policy is to create conditions for the formation of long-term competitive advantages in domestic commodity producers. Ukraine has significant natural advantages: sufficient labor force, profitable geographic location, rich natural resources, etc. But these are only potential benefits, they still need to be developed and implemented. To use competitive advantages for the Ukrainian economy, it is necessary to focus on: active labor force, developed industry, availability of high technologies, etc.

Frankly speaking, the absence of a model of appropriate incentives for innovation in the domestic economy, objectively determine the traced-peripheral place and role of Ukraine, narrowing the possibilities to participate in strategic high-performance forms on the basis of a full partner. The unconditional confirmation of this is the orientation of the domestic industry in the production and export of goods of the III and IV technological processes that have exhausted itself in the developed countries in the mid-1970s. According to the III-rd (57.9%) and IV (38.2%) technological processes, over 96% of industrial production is produced in Ukraine. It is exported by the state (according to the third technological process), ferrous metallurgy, electricity, railway transport, inorganic chemistry, etc.

In the structure of import, the products of the V-style, for example: electronic equipment, computer technology, telecommunications, information services, whose production in Ukraine is only 13.1%. Also, it should be noted that the production of this group of goods accounts for only 4.5% of investments.

In the middle of all the factors that shape the priorities of foreign economic activity of the country, the direct influence is determined by the definition of the interdependence between "GDP-ZTO". Of course, foreign trade has a significant impact on GDP growth of the country as the main source of income generation of financial relations. It is proved that the country's export and import activity has a positive influence on GDP growth, especially in conditions of high productivity and competitiveness of domestic products.

The impact of exports on GDP is no different from the impact on consumption, gross investment and public procurement. Despite the fact that a certain proportion of goods and services that are produced in the country are sold abroad, the cost of their production - is the cost of foreigners to domestic GDP. The bigger the exports, the more foreigners spend on the production of national GDP. Therefore, an increase in exports increases the total expenditures and GDP of our country.

#### 4. CONCLUSIONS

According to the results of the research and in the opinion of Directors of the American Chamber of Commerce in Ukraine, if we talk about improving the investment climate in our country and creating an attractive environment, it is necessary to take a number of actions, namely: 1) to reduce the level of corruption, according to 79.8% of 1500 respondents; 2) to form transparent regulatory legislation, 70.2% of those polled believe that 3) 69.2% consider that all this should take place against the backdrop of political stability.

Among the challenges that are an obstacle to the development of investment resources by foreign investors, it should be noted:

- 1) a high level of corruption, 56.4% believe it;
- 2) the imperfection of the legal and regulatory framework - 8.5%;
- 3) political instability - 7.5%;
- 4) activity of law-enforcement bodies - 7.5%;
- 5) the international level of the country - 5.3%

The most attractive sectors in 2017-2018 are the following sectors of the economy: agriculture, infrastructure services, knowledge economy.

Taking into account the above-mentioned factors, it should be noted that in order to ensure stable economic growth, Ukraine should eliminate the influence of those factors which are more subjective. To do this, it is necessary to create conditions for improving the investment climate in the country, to implement national programs of support of domestic producers, to accelerate the processes of adaptation of the legislation of our state to European standards.

Under the current conditions, the following global trends in the world economy will directly affect the positioning of Ukraine:

- the strengthening of international competition in the markets of commodities that are the subject of international specialization of the country, especially on the world metal market, without the real prospect of restoring domestic producers' former competitive advantages in connection with the global overproduction of raw metal products and the tendency to intensify their own production capacities by importing countries Ukrainian steel;
- development of agrarian market of agricultural products;
- global changes in the global structure of natural gas trading in favor of the intelligence of alternative energy sources;
- strengthening the role of cutting-edge technology, which will increase the share of their contribution to the global distribution of forces.

Whatever course of integration Ukraine has chosen, it is worth remembering that the formation of the internal environment of our country is the basis of stability. To this end, the most important benefits for Ukraine should be: expanding the export of traditional and new goods; development of cooperation in the energy sector, including on the use of alternative energy sources; co-operation in the chemical and light industry; expansion of joint activities in the medical sphere, automotive, as well as transport and agricultural engineering.

Effective mechanisms of activation of Ukraine's commercial emergence can be: the formation of industrial and commercial chains, consist of firms and enterprises of different countries. The integration of Ukrainian producers in such chains will allow them to enter new prospective markets, rationalize their own production, react more flexibly to changes in the international economic situation, and ensure the stable development of the respective industries, in order to increase the GDP of the country.

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