

Macroeconomics

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**TENDENCIES OF TRADE DEVELOPMENT  
IN THE TRANSFORMATION ECONOMY  
OF UKRAINE**

**Abstract**

The paper is devoted to topical problems of trade development in the conditions of economic reforms. The attention is focused on the issues of state trade regulation effectiveness and the shortcomings of actual methods of compiling statistics.

**Key words:**

Domestic trade, market transformation, state regulation, statistics.

In studying the problems of trade development in the period of market transformation and analyzing the regularities of its formation, as well as in forecasting its development tendencies, we proceeded from the principles of economic theory, in particular from that formed by the authors of «Macroeconomics» by Paul A. Samuelson and William D. Nordhaus. According to this theory, an industrially developed economy, irrespective of the system applied to organi-

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zation of its economic activity, is always characterized by the following three features: trade, money, and capital. The idea of the gains from trade is one of the central points in understanding the economy [5: 64–65].

The essence of market transformation of domestic trade in Ukraine consists in formation of social, functional, and economic trade structure, identical to market-type economic environment and fitting the conditions for effective realization of its functions within the system of national economic complex.

Trade turned out to be among the first economic sectors which switched to the mechanism of market management. In a short term, the centralized distribution of commodity resources was annihilated, administrative managerial vertical line changed into horizontal ties among market entities, and trade enterprises changed their form of ownership and acquired full managerial independence.

The processes of demonopolization, denationalization and privatization lead to qualitatively new changes in the structure of retail sales network.

Consequently, in 1995–2003, the number of state-owned enterprises reduced to only 12%, which is less than 8% of total commodity circulation. At the same time, corporation became the dominant pattern of ownership. 75.5% of the retail industry is incorporated, and they make 81.6% of commodity turnover. 12% of the enterprises in trade sphere belong to private sector. These are mostly small businesses with a minor share of 11.2% in the commodity turnover. Since 2000, the structure has been closed down yet with slight fluctuations available [7].

Undoubtedly, it is only due to privatization that the trade environment became competitive. Nevertheless, petty privatization did not become the accumulation basis for commercial capital. On January 1, 2003, 47.7% of the whole number of privatized commercial objects were purchased by consumer associations, 23% were obtained through rented property buy-out, 15.6% – sold on auctions, 2.8% – sold on the basis of non-commercial competition, and 5% – sold on the basis of commercial competition [7].

In general, privatized enterprises passed into collective ownership. Voucher privatization became the privatization game, as a result of which the majority of enterprises fell into the hands of home investors with no money and lack of market experience. While in the process of privatization, critical is the search for strategic investor that has the strategic plan of business development and is able to finance it.

Distortions, ignorance of economic laws and all positive accomplishments attained in trade, as well as the lack of proper post-privatization state support, caused financial crisis at many enterprises, significant worsening of trade service, washing away of socially important and essential goods, and reduction of a number of commercial enterprises and progressive forms of trade. In V. Apopiy's opinion, the theory of reforms, which predicted the «abrupt break through» of commerce into the market, made it the target ground for various experiments. Now, it is obvious that this could be regarded as more than a fault [1: 40].

At present stage of development of the country, trade is the most widely spread economic activity of practically all enterprises of real economic sector, irrespective of their forms of ownership. Hence, 30% of entities listed on the Unique State Register of Ukrainian Enterprises and Organizations engage in almost full specter of commercial activity, whereas 45% of them are small businesses.

Trade constitutes a rather essential share in the formation of gross domestic product in Ukraine, still tending to increase. While in 1990 trade and catering constituted 4.5% of GDP in Ukraine, in 1995 this share grew up to 5.9%, in 2000 – to 9.1%, and in 2001 – to 9.3%. It means that during these years a total amount of gross added value (including paid taxes) created in the trade sector surpassed the rates of increase of that in other sectors, that became possible due to internal factors of consumer demand development and their intensified effect on economic processes in Ukraine.

In addition, trade plays a significant role in the revenue formation of budgets at all levels. The share of domestic trade in state budget revenues makes 5%, while in the structure of local taxes and duties – almost 50% of revenues are connected with trade [10].

The present stage of development is characterized by an important role trade plays in Ukraine in ensuring employment, specifically of women and young people. As statistics shows, about one sixth of all economically active population in Ukraine is employed in trade.

Trade is considered to be the most attractive economic sector in terms of investments. It was the factor that activated the attraction of foreign investments in Ukrainian trade. Thereby, out of the total volume of foreign capital invested into the national economy of Ukraine during the restructuring period of market relations development, 19% were invested in trade. Direct foreign investments into the enterprises of this industry totaled \$727.8 mln. [9: 274].

The rate of capital growth invested into trade in 2001 exceeded the similar index for economy in 1.9 times. 35% of total amount of commercial banks credits account for trade. At the same time, the bodies of national and local administration do not provide investment support to the trade sector [7].

Up to 2000, the financial state of the majority of managerial entities in the trade sector was regarded as too critical. Trade rated the «honorable» second after agriculture in terms of total losses. Thus, in 1998, the losses reached UAH 1879 mln., and in 1999 – UAH 1649 mln. Since 2000, the efficacy of financial and managerial activity of retail trade has tended to increase. On January 1, 2002, 63% of businesses generated profit [9: 70–72]. In 2002, the share of trade sector in the total amount of income generated by profitable enterprises reached 26.6% [7].

Over and above, trade plays the leading role in ensuring people's high quality of life. Thus, 75.5% of household cash expenditures in 2001 accounted for purchase of goods and services, though in 1995 this figure amounted to

81.3%. This could be caused by the increased proportion of compulsory payments and fees in total amount of expenditures, which has a negative impact on the development of domestic consumer market [9:402].

The expansion of domestic trade depends not only on the increased solvent demand via increased real income of population but also upon the mechanism of interaction between the demand and supply on the market. Now, Ukraine actually lacks the market structure which would accumulate commodity stock, ensure timely delivery of goods into retail network, form the assortment, establish contacts between the seller and the producer on the basis of rational ways of commodity flows and deliveries, and ensure the feedback effect on the volume and structure of production.

Therefore, now it is an urgent challenge to develop the market oriented wholesale trade. The process of eliminating the system of centralized distribution of goods, rationing and limiting commodity resources, where the wholesale trade performed solely distributive and delivery-sale functions, has not resulted in building of a qualitatively new wholesale system in Ukraine. Instead, the processes of the wholesale trade's breaking up, spontaneous functioning of wholesale-intermediation activity, as well as of systemless development of new wholesale-organizational forms and institutions intensified. In its turn, this situation resulted in disruption of the links among sectors and managerial entities, development of barter trade, ungrounded enlargement of commodity promotion chains, as well as in the increase of a number of wholesale intermediaries in the process of commodity turnover. Moreover, it brought about the rise of turnover costs and prices and slowed down the velocity of commodity turnover. The analysis of the present state of wholesale trade showed that Ukraine has 15–20 times less of the wholesale enterprises than do the industrial countries. Before economic relations were liberalized, wholesale trade provided rather powerful, stable and territorially unique structure. It covered 311 wholesale storehouses with an average area of 2 m<sup>2</sup> mln. Now, the wholesale trade system, which was formed in the past years, practically does not function, and its material and technical base is partially utilized (mainly rented). For the most part, small enterprises operate at the market for wholesale services. As statistics shows, 40% of enterprises, having less than 500m<sup>2</sup> of wholesale storehouse space, made 98.8% of total wholesale commodity turnover.

Further degradation of wholesale trade with crush of its structure and contraction of its functions will inevitably bring about market disorganization, mass switches to ineffective one-time sales contracts, accumulation of over-normative stock in retail, as well as sluggish turnover with subsequent inert exchange process on the whole.

The crisis phenomena, which accompanied formation of market relations in 90-s, conditioned significant reduction of activity in the retail trade.

Despite the volume of trade turnover in the country increased in three-fold on nominal scale since 1995–2001, it has occurred mainly due to price increase and inflation. The quantity of sold goods did not grow in bulk for that period, but

on the contrary, it dropped. The volume of retail turnover tended to grow since late 1999, which indicates that domestic consumer market expands and become more active, but nevertheless, it was only in 2002 that the index of physical turnover volume reached its 1994 level, and 41.7% of the level of 1990. The growth of commodity sales of national producers is positive. On the whole, their share in 2002 grew to 76%, including food-stuffs – 93.8%, and nonfoods – 61.2%. Yet, the share of imports in the organized sector of nonfoods is very high, especially for TV and radio goods it made 93.7%, photo goods – 97.1%, and electric goods – 84%, which is rather threatening, since a quarter of imports within the domestic turnover is considered to be a destabilizing factor in national economy [7].

The development process of retail sales network has drastically changed. While before the market transformations the trade material and technical base developed according to centralized plans being financed from state sources, under new management environment these issues mainly refer to the managing subjects. Nevertheless, as practice shows, business entities by themselves, without due coordination and centralized regulation by local bodies of executive power, would not be able to form an optimal structure of the trade network and locate it rationally in a populated area, which would ensure high quality of trade services and adequate profitability.

Trend analysis of retail sales network development signifies that it has been incurring great distortions. Thus, by 1991 a number of shops has been continuously growing (in 1986–1990 growth made 3.4%), while in the past decade the situation was the opposite, when the shrinkage of retail outlets reached almost 11%. Because of continuous decrease in the physical volume of retail turnover in Ukraine, by 2000 the number of closed stores exceeded the number of the newly built ones. Consequently, in the past decade the share of stores in the total number of retailers decreased by 35%.

Major retail channels were under-replenished with newly built stores. Apart from this, the trade-adjusted, non-residential premises, rather than newly built ones, prevail among the newly opened stores, which made the introduction of advanced technologies impossible.

The distribution of retail network by the types of stores and commodity classification is often chaotic and without regard for the standards of providing the population with relevant trade network and trade space of retail enterprises, which impacts negatively both the quality of customer service and the results of trade activity.

The structural deformation of retail trade development caused considerable decrease in the indicator of provided store network to population, especially in terms of trade space. Negative is the fact that the space of the stores was shrinking at a higher rate than their number, which showed a considerable fragmentation of the latter.

Consequently, during 1990–2001, the average trade space of stores diminished from 93.6m<sup>2</sup> to 90m<sup>2</sup>. Only in 2002 some growth set in, i. e. the trade

space per one store made 91m<sup>2</sup>, though to ensure rational organization of trade and technological processes 250 m<sup>2</sup> are required [3:1].

Neither in Ukraine nor overseas an optimal norm of trade space provision is established. But in 2002 in the countries of Western Europe, trade spaces amounted to 6000–10 000m<sup>2</sup> and more, whereas in Ukraine they totaled 1 261 m<sup>2</sup> per 10 thousand people respectively [3:1].

The greatest share of the total number of retail stores accounts for the enterprises with average staff up to 5 people – 32.3%, from 6 to 10 people – 25.8%, and those with 21 to 50 people employed – 15.5% [9:187].

Hence, there is no optimal correlation between large, middle-sized and small enterprises. But for the tax burden levied on the enterprises with a large number of employees and the lack of circulating assets, and high rental charges, a great many of these trading enterprises turn into the stores with rented space, where goods are placed by natural persons having significant, but statistically unaccounted for, turnovers.

Thus, the majority of the department stores in regional and district centers were sold or rented to natural persons. Consequently, by 2000 a number of department stores decreased to 223 against 771 in 1990, in particular, in Mykolaiv region – only 1, and in Rivne region – only 3 of them, survived [8:226].

Moreover, the quality of stores also worsened: a quantity of non-food shops decreased while that of general ones increased, which implies non-optimal consumption structure and low quality of life. The level of store specialization fell about by five times (on January 1, 2003, it made only 7% in food and 36.1% in non-food trade).

Till 2002, the turnover structure faced earnest disproportions. Thus, from 1990 through 1995, the share of non-food goods in retail turnover dropped from 56% to 37%, which was similar to the shares in domestic trade turnover structure of under-developed countries. On January 1, 2003, the turnover ratio of food to non-food goods made 49.1% as against 50.9% in 1985 [7].

Observed also is the negative trend of the shrinking number of self-service shops the their trading spaces. In 1991–2000, the rate of self-service shops dropped from 65% to 6%. Only 8.4% of turnover volume accounted for these stores, while in the developed countries self-servicing prevails in trade area [8:226].

In addition, socially-oriented trade enterprises actually do not work. On January 1, 2001, about 205 shops and some departments and sections in 1429 shops provided privileged service to poor people.

Though official statistics, despite its insufficiency, imperfectness and scarce comparison, allows to observe some trends in trade development, it does not provide realistic estimation of financial, working and social characteristics of trading enterprises and the state of average trade service, since the State Committee of Statistics has not yet mastered the instrument of market adapta-

tion assessment. Thus, according to existing methodology for retail sales turnover calculation, only juridical persons are to report to statistical organs, but lately the structure of retail sales underwent radical changes – along with shrinkage of trade enterprises of juridical persons, the trade network belonging to individuals has been growing intensely.

As the survey of Ukrainian State Committee of Statistics shows, the ratio between the numbers of retail entities owned by juridical and natural persons made 72.2% and 17.8% respectively. The same indicator including stores made respectively 77.6% and 13.4% respectively [6]. Another tendency is observed to re-register the enterprises into private enterprises with the owner's right to employ staff. Naturally, this entrepreneurship can not be regarded as a proper form of development for full-fledged trade enterprises which would be able to carry out their assigned social and economic functions.

Typical has become the fact that the retail network growth was mainly guaranteed by stands, pavilions, tents, mobile nets, and street markets.

As overseas experience shows, stores and non-store trading outlets should have clearly defined working segments. The peculiarities of non-store sales points precondition their commodity and prices, which differentiates this sales organization from that of the stores. As a result, these trading outlets not only complement the network of stores, but also play an important role in trade servicing and competing with the latter.

According to the survey data provided by the Ukrainian State Committee of Statistics, the number of stands in 1990–2000, including those owned by natural persons, increased in 1.7 times, while the number of stores dropped by 17%; 59.4% out of these were owned by juridical, and 40.6% – by physical persons [6].

The development of market networks was rather dynamic, doubling in number in 1996 – 2000. The official data signify that in the early 2002 Ukraine had 2715 street markets, 67.7% of them being collective, 17.8% – state owned, and 14.3% – private property. In terms of specialization mixed street markets dominate, accounting for 54.4% of the total [9:298].

Growth dynamics of the number of street markets in the Ukrainian regions illustrates the tendency of their most intensive development in industrially developed and densely populated regions (Dnipropetrovsk – 195, Donetsk – 256, Odesa – 159, Kharkiv – 126, Kyiv – 95).

Street markets became the source of budget revenues of all levels in the form of taxes on land, on licenses, permit fees for sales points, fixed taxes levied on entrepreneurship, single taxes, taxes on profit, VAT, etc. Therefore, the local bodies of administration gained interest in increasing the number of natural persons – payers of fixed taxes, since these resources replenish local budgets, and in addition, due to self-employment of a sizable part of population, social tension related to mass unemployment slightly stabilized.

Since natural persons are allowed to pay in cash for carrying out financial transactions, it was rather problematic to get true information about the state and volume of turnover. At present, Ukrainian street markets provide one of the major sources for supplying the Ukrainians not only with agricultural products, but also with all variety of food and non-food goods. Officially, about UAH 18 mln. of goods are being annually sold on the Ukrainian markets, which accounts for almost one third of total volume of realization in the commodity market. In addition, the turnover in non-formal markets makes additional UAH 4 mln. [7].

The development of street markets is a complicated social and economic phenomenon. Therefore, it is impossible to build an effective economic system as a whole, as well as civilized trade in particular, without the detailed analysis of its strong and weak aspects.

The positive tendencies of street markets development are as follows:

- at the initial stage of Ukrainian economic reforms, the sales in the street markets turned out to become a significant factor of building a competitive environment in domestic consumer market;
- since this kind of trade is of low-cost and non-capital intensive character, the market places became vital centers where entrepreneurship activity and initiative started and developed;
- street markets superseded bankrupt trade enterprises;
- the development of street market trade contributed to creation of extra jobs, which allowed to ease slightly the social tension caused by mass unemployment;
- as far as market duties and fixed taxes pertained to local budgets, they turned out to become the main source (up to 80%) of replenishment of the latter.

We can also point out the following negative tendencies and outcomes:

- increased realization of false and smuggled goods because of lacking regular commodity and cash flows controls in spontaneous market places;
- mitigated competitive capacity and protection of national producer at the account of uncontrolled intervention of foreign-made goods in dumping prices into domestic market networks;
- ignorance of well established practice of developing general lay-outs for location of trade networks on separate territories, which makes investment ineffective, and creates competitive challenges for the subjects of trading activity.

In our opinion, the greatest disadvantageous outcome consists in *non-civilized forms the street market activity has acquired in Ukraine*, thus not meeting the world standards. It was just this kind of trade that became a momentous



competitor with the stationary one, putting the latter on the verge of survival. Naturally, this entrepreneurship can not be regarded as the form of valuable trade development capable of proper execution of the assigned social and economic functions.

As the world experience shows, the situation with trade when the shops are not the major place of purchasing goods is typical of the countries of low life quality that are lacking clear program of trade development for directing the retail network toward a civilized course.

Reasoning from present realities, recently the regional programs of street market improvement have been developed, which, in particular, presume gradual transformation of street markets into trade and service complexes.

Another pressing problem concerns statistics accounting for evaluation of real volumes of market turnover, plus financial, working, and social characteristics of market activity.

Along with negative changes, worth noting are the positive trends in the material and technical basis development of trade, as well as improvement in introduction of advanced trade technologies. Changes in quality came alongside with the establishment of the retail enterprises of Western European standard, large whole- and retail-sale units, trade systems and corporate trade networks, as well as with the intense development of firm trade network of producers and introduction of discount and electronic trade. Nevertheless, despite the role of the above-mentioned channels of retail sales is constantly growing, their share in average turnover in Ukraine is insignificant. The shops of advanced formats make up only 1%.

When analyzing the present state of trade development, one should admit that in many cases the challenges and disproportions resulted from low effectiveness of state trade regulation. Consequently, the liquidation of the Ukrainian Trade Ministry and a significant decrease in specialists at the structural subdivision of the Ministry of Economics and European Integration, liquidation of trade departments at regional state administrations, privatization of state-communal enterprises, specifically in terms of wholesale commodity flows, substantially limited state influence on trade development, reducing regulation functions mainly to bans and restrictions. Hardly a country can be found where the supervision over such a large-scale and vital area would be assigned to other than a specialized ministry.

That is why, the pressing necessity is to develop the own model of domestic trade and to design a system of state trade policy with the following principal directions:

- to essentially expand and update the normative and legal basis for trade development via the adoption of the Law «About Domestic Trade» and revive the capable vertical chain for state trade regulation;

- to form competitive environment, promote the advanced, economically feasible organizational and legal forms of entrepreneurship, and to develop the latter;
- to ensure effective state regulation of the retail trade network, to intensify the influence of the regional bodies of state regulation upon trade development and increase of entrepreneurship activity, to charge these organs with such tasks as formation of a regional trade policy and its priorities; ensuring general taxation principles and development of the peculiarities of their application to trading subjects on the regional level; development of normative and legal trade basis in terms of its specification applied in the region; providing support to national producers and traders;
- to encourage all kinds of investments into structural trade reformation and development in order to provide the Ukrainian people with high quality trade services;
- to create conditions for subsequent provision with store trade spaces, primarily in the districts of new housing constructions via preferential leasing of land sites to trade enterprise builders in newly developed residential areas, as well as via targeted preferential crediting of the construction of big retail enterprises;
- to ensure the optimal correlation of shops in the variety of specialization forms and sizes, to create conditions for priority development of domestic producers' shops network, for the development of powerful national trade systems, super- and hyper-markets, and discount shops, also to introduce preferential income taxation and crediting for socially oriented trade enterprises;
- to ensure introduction of advanced trade technologies, particularly electronic trade, self-servicing and advance order sales; to adopt the Concept of National Ukrainian Policy concerning the quality of consumption goods and services; to create a system of standards meeting present international requirements; to ensure realization of the innovative model of the development of consumption goods production meeting new quality standards;
- to improve information base for trading researches by means of improving statistics in all retailing channels to intensify statistical observations of trade development; to register natural entrepreneurs in statistical organs; to design a simplified system of statistical accounting applied to natural persons allowing for real turnover volumes; to introduce selective observations representing not only the state but also regions, districts, and cities, with regard to world experience of compiling statistics, irrespective of the status of an enterprise.

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