



**Regionalization and Globalization**

Mykola BUTKO

**FORMING A NEW MODEL OF UKRAINIAN  
FOREIGN ECONOMIC ACTIVITY**

**Abstract**

Intensification of competition in a globalizing world has naturally raised the problem of the former USSR countries' competitiveness at macro- and regional levels. The advantages of national economy, its separate industries and enterprises largely predetermine the dynamism of national manufacturing, employment, and well-being in the course of economic rivalry. The level of competitiveness primarily predetermines the economic security, as well as international economic relations of Ukraine in the world economy.

**Key words:**

Open economy, national economy, international economic relations, competitive market environment, liberalization, protectionist policy, export and import transactions, investment, economic security, clusters.

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## Introduction

Becoming a State was the starting point for Ukraine's factual entry into the world area as the subject of international economic relations. Cardinal changes in the geopolitical situation of Ukraine, which were the result of the acquired independence, as well as the peculiarities of modern transformation processes in its economy, have substantially increased the role of external economic relations in the development of the country. Consolidation of this factor is objectively dictated by market transformations, which form a qualitatively new basis of further economic and social development of the country. Ukraine is in the process of entering the world economic space, and the way of doing this will determine its further economic and social development as an organic subsystem of the world economy. Traditional ideas about international communications change under conditions of market economy, transition to open society, development of new ownership forms, and independent decision-making of market participants.

The improvement of the international communication mechanism, the choice of specific instruments of integrating the national economy into the world economy, the formation of mutually beneficial external relations are the primary issues to be considered in the light of the real status and national developmental features of the Ukrainian economy.

The formation of open economy and the development of foreign economic relations are urgent because this sphere is at the initial stage of development in Ukraine. It is the result of scanty scientific validity of the development strategy for external economic relations of industrial and territorial complexes, and of the lack for external economic legislation that would conform to the world standards.

The sphere of foreign economic relations is a subsystem of the country's economic system, which directly influences the development of the economic complex. Its formation is affected by the factors that determine the economic system's overall development and by the factors that directly predetermine its status of a subsystem.

## Current State of Foreign Economic Activity

The overall economic development of the country and its separate branches is determined among others by the ratio of export and import volumes. The majority of the developed capitalist economies have positive trade balances, with exports exceeding imports. The tendency to exports growth and critical imports reduction has not been observed in Ukraine yet.

The fact that one third of the Ukrainian national manufacturing is determined by external economic relations induces it to take active part in international relations. This means that these relations play an important role in national economy and essentially influence the rates and proportions of economic development, forming a competitive market environment and transformation processes.

The experience testifies that the inclusion of Ukraine into the world commodity turnover requires consecutive policy of adapting its legislative base, economic structures, and the entire managerial mechanism to the strict requirements set by the international economy. On the other hand, the case in point should not be the reckless liberalization of foreign trade which is closely related to the problem of state economic security at the stage of transition. The matter in question should be the state-regulated process of opening the national market and realizing, at the same time, a targeted protectionist policy regarding domestic producers and national economy as a whole.

Foreign economic relations of Ukraine have also certain negative features that become apparent in such phenomena as a large share of raw materials in exports; dependence of petroleum and gas supply upon practically one importer; imports of excessively large quantities of consumer goods, irrespective of difficult economic situation of domestic manufacturers. A constantly increasing (because of competition in the world market) share of raw materials and products of first degree of processing in the production and exports structure, degradation of processing industries, and high dependence on critical imports proves that the general vector of foreign element in the economy does not conform to the stabilization and development needs of our country. Being at the stage of transition, the Ukrainian economy is excessively open to foreign trade. Such a situation endangers domestic economy, since the high level of its openness is the result of unsystematic trade; and any unwanted shift in the economic conjuncture of the world commodity markets can decelerate its rates of economic growth.

As proves the practice, in the developed countries the share of total exports in GDP does not exceed 25%. The share of net exports in trade GDP makes 35% [1: 26].

The need to achieve competitive position on the world markets using available advantages and potential brought the development of the Ukraine's competitive capacity to the scenario of the simplest model – the model of consolidation and survival in tough competitive environment on the basis of production factors [2: 869].

This conclusion is supported by the data on total volume of foreign commodity turnover, which made \$34933.9 mln. in 2002 (the increase of 22.3% compared to 2000), including exports – \$17957.1 mln. (+ 23.2%), imports – \$16976.8 mln. (+21.6%). Positive balance doubled and made \$980.3 mln. (\$489.6 mln. in the previous year) [7: 277]. The commodity structure of external trade is presented in Table 1.

Table 1.

**Commodity Structure of Foreign Trade (in \$US mln.)**

Commodity Items	1996		2000		2002	
	ex-ports	im-ports	ex-ports	im-ports	ex-ports	im-ports
Total	14441.2	18639.1	14572.5	13956.0	17957.1	15775.1
Livestock and animal husbandry produce	596.5	312.9	366.3	104.5	379.7	142.1
Vegetable products	876.4	250.7	367.9	302.8	1120.7	220.4
Fats and vegetable oils	184.6	38.6	240.1	61.2	342.2	110.7
Food industry produce	1408.0	845.0	403.1	439.7	546.4	640.6
Mineral products	1354.5	9642.4	1399.9	6540.1	2244.9	7047.3
Produce of chemical and related industries	1684.0	1038.2	1542.3	897.9	1397.0	1375.0
Plastic and rubber	392.4	775.7	245.5	627.3	262.7	736.2
Leather and fur stuff and products	121.3	52.7	117.3	46.3	159.1	58.6
Timber and its products	55.2	125.7	217.5	49.7	289.7	85.0
Wooden or other fibrous material paper stock	139.1	399.0	200.8	386.5	278.6	682.0
Textile fabrics and products	383.0	503.3	537.8	560.2	654.6	673.0
Footwear, head-dresses and umbrellas	70.4	70.6	69.1	32.2	76.0	53.6
Stone-ware, glass-ware, gypsum, cement, asbestos products	173.9	158.7	116.9	148.5	147.3	202.4
Base metals and their products	4670.3	807.7	6468.0	680.8	7125.6	810.9
Machinery, equipment (electrical and mechanical)	1409.5	2509.1	1358.1	1941.0	1758.6	2502.0
Transport facilities	632.4	582.9	437.9	503.7	689.3	1021.5
Optical, photographic, cinematographic, measuring, medical, and surgical equipment, clocks, musical instruments	62.5	207.0	63.7	184.7	182.9	267.2
Various industrial commodities	55.0	152.4	73.0	89.2	96.6	135.9
Works of art	0.0	0.1	0.0	0.1	0.1	0.5
Commodities bought in ports	172.0	118.2	6.2	119.4	6.5	93.2
Miscellaneous	0.2	48.2	341.1	240.2	198.6	118.7

Source: [7: 283].

The basic item in the Ukrainian commodity structure of exports is ferrous metals. The share of this produce in total amount of commodity exports made 39.7% in 2002. The Ukraine's structure of irons exports requires improvement because it contains an overly large share of semi-finished products, that is, the produce of lower processing level (pigs, slabs, etc.). Although this product is always in greater demand than the produce of high processing level (the production of semi-finished products is considered to be «dirty», and therefore, the countries with high ecological requirements do not develop it), it is not reasonable to increase the latter's share in production at the expense of the former [4: 795–796]. Apart from ferrous metals, there is also a steady foreign demand for chemical produce (primarily products of inorganic chemistry and fertilizers), mineral products (ore, slugs), machines, and equipment. Thus, except for machine-building produce, the structure of exports is dominated by raw materials. Similar situation is observed in the sphere of imports. The main item of imports is mineral products (41.5% of total imports); then come oil and products of its refining and natural gas (above 60% of total volume); the produce of mechanical engineering follows (14.7% of total imports) [4: 869–873].

The data presented in Table 1 prove that metal, chemical products, and transport services are the three basic items of Ukrainian exports, and throughout these years, they formed the volume of Ukrainian sales abroad. Based on the above data, we can also single out main reasons that restrain growth of Ukrainian exports. Among them are the following:

- as international competition intensifies, foreign countries increase state support to «their own» exports;
- entry to global markets becomes more complicated for the Ukrainian enterprises as some countries introduce protectionist measures;
- the majority of the Ukrainian industrial produce have the worst competitive abilities;
- the systems of exported products certification and quality-control are underdeveloped, whereas the world market's requirements not only to scientific and technological parameters, but also to consumer and ecological characteristics of products, increase;
- the experience and specific knowledge concerning entry on to the world markets is inadequate; the level of marketing activity is low; state's activities in this sphere are not coordinated;
- there is a break-up between traditional industrial and cooperation relations with enterprises of the CIS and Eastern Europe;
- cooperation with developing countries is weak;
- investment financing of export-oriented projects by means of domestic resources is critically insufficient, while the opportunities of using for-

eign investments and credits for this purpose is also limited due to low Ukraine's international reliability ratings;

- the role of the regional factor in export stimulation is ignored.

Other obstacles to national exports growth include low efficiency of production, high power and steel intensity of production, backwardness of technology of the majority of industries.

This essentially weakens even more the exports structure, which is already at the most of its sensitivity, with major concentration in the sectors characterized by price competition, that is, the price, but not production technology or product quality, is the decisive factor of competitiveness. The problem is also that proceeds from exports are subject to considerable variation when supply exceeds demand due to situational or cyclical reasons. This makes it also very hard for the economy to achieve a desirable level of external balance, especially when critical imports and external debt servicing do not ensure stable export proceeds.

Moreover, such exports are very sensitive to other competitors' actions: when rivals offer better contract pricing terms, the hardly-won market positions of domestic producers in the markets for raw materials and semi-finished products are easily lost [3: 77–78].

### **Ways of Increasing the Country's International Competitiveness**

The core of a modern model of Ukraine's international competitiveness should be national competitive advantages in industrial and regional macro-technological complexes, which should become a framework for structural modernization of the economy over a long run. Such complexes should be formed proceeding from the fact that in global economy, Ukraine is the State characterized by:

- powerful scientific and technological potential;
- high manufacturability, especially in shipbuilding, aircraft construction, and space industries;
- extremely comprehensive facilities in agrarian-industrial complex;
- significant geo-economic advantages of transit.

For these complexes to function, required is such a policy that would allow:

- to provide – by means of granting political, financial, and information support – access for domestic enterprises to the markets controlled by trans-national corporations or protected by barriers of foreign states and economic unions;

- to achieve mutually beneficial relations with foreign countries and trade-economic groupings falling within Ukraine's national interests, and to remove the existing discriminatory restrictions (removal of different trade barriers with the countries of CIS is of special importance);
- to regulate currency and financial problems in the relationships with the creditor countries, international organizations, and debtors over the long run;
- to form an effective system of protecting external economic interests of Ukraine by diverting major attention from the customs tariffs and focusing on the instruments of technical regulation (standards, technical, ecological, veterinary, and other requirements) and measures of consumer protection.

Reality shows that on the world market primarily compete the economic entities (firms, corporations) that form a basis for economic strategy development of the branch and later for the whole country. However, it should be noted that the nature of this process is twofold, since the country's strategy increasingly influences decision-making processes in separate branches and firms.

The most effective strategy of integrating Ukraine into the world economy is the combination of its structural transformation with its orientation toward accelerated growth and differentiation of exports. This can be achieved through general improvements in the innovation sphere of the country and attraction of investments to industries, as well as creation of export incentives and development of viable, competitive exporters.

The strategy of foreign trade intensification includes the following tasks:

1. To grow export potential and improve its structure. The growth of export potential in the production and services spheres based on their previous development and entry to the new markets will enable to employ the capacities of internal economy more fully. This requires that the existing scientific and industrial potential be reoriented towards export production and the comparative advantages consisting in natural, scientific and technological resources, highly qualified and cheap labour, priority advances in the spheres of scientific and technological progress.

2. To rationalize imports. This can be achieved by reducing imports of goods, which can be adequately produced in Ukraine, optimizing industrial imports, and reducing the deficit of trade balance.

3. To position domestic enterprises at the world market. Ukrainian production is uncompetitive. This prevents Ukraine from entering the world economy as a full partner. The condition to accumulation of the economic complex's export potential and its integration in the system of global relations is bringing the quality and the production costs of domestic processing industry in conformity to the requirements and competition on the world market. This calls for gradual convergence of domestic and world production and product quality standards and

ensuring conditions for priority development and expansion of the industries characterized by more advanced (compared to foreign) technological and high growth potential at the world market.

As for the state, it should support the development of high-technology production with its active policy in the sphere of external and geo-economic strategies [2: 49].

4. To attract foreign investments to modernization of technology and accumulation of potential of extended reproduction. Proceeding from national interests, it is necessary that foreign credits and other investment resources be primarily directed to stabilization, structural reorganization, and reconstruction of existing production, as well as to ensuring effectiveness of techno-policies and techno-parks.

5. To ensure economic security of Ukraine. In this regard, the basic spheres that should be regulated in order to ensure economic security are the following: currency controls, export-import controls, strategic raw materials exports regulation, and critical imports regulations. One of the major positions in the foreign economic strategy of Ukraine belongs to determination of directions of scientific and technical progress, structural reorganization (at macro- and micro- levels), search for perspective export industries and rational approaches to solving the problems of withering away of traditional branches.

Implementing a new model of foreign trade activity demands much time. However, if we manage to combine an aggressive export policy of the state with the attempts of market participants to use real accelerators, we will get a possibility of a new ground for commodity expansion.

This is not simply a romantic aspiration; it is an objective necessity derived from the fact that national economy loses in competitiveness, its dependence on raw materials and world market conjuncture does not decrease, while technological backwardness increases.

### **Accelerators of Forming the New Model of Foreign Trade**

One such accelerator at the national level is the formation of new export industries. Such perspective industries are based on scientific and technological monopoly. However, this is not the monopoly based on production concentration and centralization, which becomes short-term and unstable in character under present conditions. The formation of scientific and technical monopoly requires not only a combination of fundamental and applied scientific achievements with high technological potentiality, but also the capability of large-scale and fast economic manoeuvring and saturating national and global markets.



Regions play the most important role in the realization of economic reforms today, which means that the development of the Ukrainian foreign economic relations depends on business activity in the regions. Therefore, the main strategic directions of accelerating the work on export potential utilization should be legal providing, coordination of regional foreign trade activity, formation of regional development programs, and creation of joint enterprises abroad with participation of Ukrainian capital. The prime strategic task of developing these connections at the regional level must be the formation of favourable conditions for export production of highly processed products, in the first place, and bringing foreign investments into regional economy, in the second place.

The underutilization of regional accelerators is proved by the fact that the share of each of the 14 regions of Ukraine did not exceed 1.5% of total exports in 2002 [7: 368].

Another important constituent of the new regional model of foreign economic activity are territorial economic networks or clusters, which combine production with science and innovation. The practice shows that the break-through on the world market is made not by one product or industry, but by the inter-industrial complex (cluster), which is a closed system of reproductive relationships and technological innovation. Clusters create a new picture of national, regional, and local economic configurations [5: 243; 8: 36].

At the level of an enterprise, which is the major subject of the Ukrainian foreign trade activity, the strategically decisive direction of acceleration should be state support and incentives to transfer to innovation-investment model of their development. In many cases, the state should provide help with re-profiling and searching for new markets abroad, as well as form the basis for preferential exports of domestic products abroad.

A very important role in expansion of foreign trade activity at national and regional levels belongs to institutions of executive power and local governments, which should develop and implement common measures for expansion of capacities of the existing customs houses which have respective infrastructural facilities and creation of new ones, simplification of registration and documentation regimes, especially for large enterprises.

## Conclusions

Therefore, the problems of forming a new model of foreign economic activity in Ukraine require such measures as:

- formation of a progressive export-import structure and creation of the state system of its support, including financing, crediting and insurance;

- informational and financial support of the state to promoting domestic products and services on foreign markets;
- improvement of the import tariff;
- permanent control over prices and directions of foreign currency use;
- establishment of favourable trade regime with foreign countries, trade organizations and unions, removal of discriminatory restrictions on delivery of goods from Ukraine;
- settlement of currency and financial problems with creditors and debtors of Ukraine;
- creation of conditions for attracting foreign investments and for successful work of foreign investors.

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