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**FOREIGN ECONOMIC RELATIONS
OF UKRAINE: RESULTS, PRIORITIES,
PROSPECTS IN DEVELOPMENT
AND ENTRANCE TO THE WTO**

The determining factor of the third millennium the defining factor for both national and international development is the globalization of the world economy, which is becoming more and more dominating trend in the world economy processes.

When working out the national strategy of development, which would assure the global integration of Ukraine into the world economic structures, it is necessary to take into account sagaciously the peculiarities of the globalization process and its contradictory character. On the one hand, the globalization raises significantly the countries' ability to use and most optimally combine diverse resources, and is deeper and involved in international labor distribution. On the other hand, the global processes sharpen competition considerably lead to immense manipulation of finance and investment recourses and are a real threat to countries with low and medium levels of income. With irretrievable advantages of globalization, we should take into consideration their controversial and inconsistent impact on various spheres of modern manufacture. So, in the process of structural global transformations gradually spreading in the world economy, processing and service industries are becoming prevailing.

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The most significant indicator, characterizing development of the globalization process, is the wide spread of information sector and expansion of information technology. Today in postindustrial economies compilation and application of knowledge consumption is becoming the first priority for national economic strategies. Countries that developed created and steadily implement strategic programs for informatization and scientification of their economies progressed impressively.

While developing the national strategies aimed to enrich economy and public production with information, intellectual and scientific potential, we should presume that this problem couldn't be solved apart from other problems. This is the integral problem of general economic strategy. Without doubt that system and structural transformation of the economy on the basis of new information communication technology is the only chance for industrialized economies in transition (including Ukraine) to catch up economically with developed market economies within the next 35–40 years. These countries are potentially standing by the structural and sectoral transformations in favor of scientific sector since they have a substantial scientific and technological potential and highly qualified labor force. The practice shows that new market economies that rationally choose national economic strategies can secure high GDP growth and per capita individual consumption up to 10–15% per year. The experience of China, Asian tigers and other countries prove it.

Apparently, history leaves no additional time for transition economies to reach the others. The historical challenge and imperative implies harmonization and synchronization of national strategies with global processes selectively having in view leading world economies. Ukraine also has such potential opportunities. The main thing is not to lose time in implementing scientific and technological potential and intellectual resource available. Solution of cited and other problems in regards of foreign economic relations presupposes Ukraine's participation in the World Trade Organization (WTO) and other international organizations like GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova), BEC (Black Sea Economic Community) etc. National and foreign economists pay closer attention to foreign economic activity of Ukraine with each year. It is of no wonder as the country rates as one of the highest in ratio of foreign trade GDP in the world. As in recent years, the foreign economic activity claims a considerable share of Ukrainian business.

The foreign trade turnover of Ukraine in 2001 increased almost by 10%. The positive balance of foreign Ukrainian trade in commodities in 2001 was to US\$489.9 million (in 2000 – US\$616.5 million). The coefficient of coverage of export by import was 1.02 (in 2000 – 1.04)

The overall turnover of external Ukrainian trade in goods in 2001 was 12,3% higher as compared to 2000 and amounted to US\$32039.8 million (growth – 11.6%), import – US\$15,775.1 million (growth – 113%). Foreign trade operations were transacted with the partners from 193 countries, the major are shown in Chart 1 and 2¹.

¹ These and the following graphs tabs are based on data provided yb the State Committee of Statistics.

Chart 1.

Geography of Ukrainian Exports to Major Partner Countries in 2001 (%)

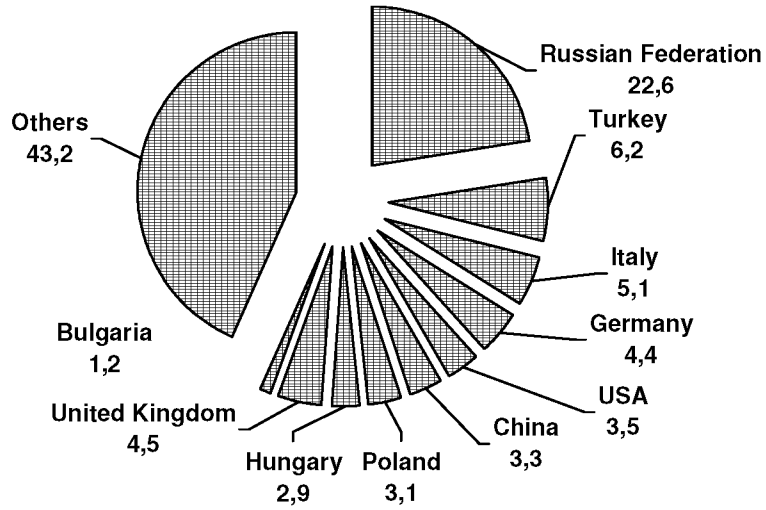
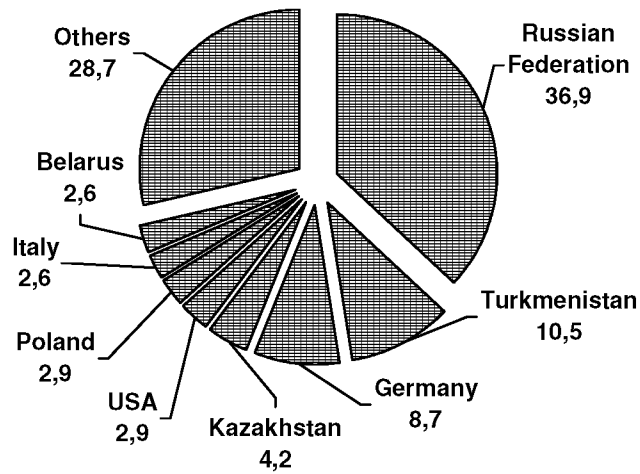


Chart 2.

Geography of Ukrainian Imports with the Major Partner Countries in 2001 (%)



The biggest volumes of Ukrainian export were to Russia – 22.6% of the overall export volume, Turkey – 6.2%, Italy – 5.1%, Germany – 4.4%, USA – 3.5%, China – 3.3%, Poland – 3.1%, Hungary – 2.9%.

The biggest imports to Ukraine were from Russia – 36.9%, Turkmenistan – 10.5%, Germany – 8.7%, Kazakhstan – 4.2%, USA and Poland – 2.9% each, Belarus and Italy – 2.6% each. The geography of imported and exported goods is shown on Charts 3 and 4.

The structure of export and import of commodities is shown by the following data (Charts 5 and 6):

Import of mineral products, gas and oil in particular still forms the basis of Ukrainian imports. Natural gas makes 23.4% and oil and oil products make 21.6% of the overall volume of imported goods.

Depression on the world metal markets and aggravation of the trade environment actually interrupted the export growth of ferrous metals – volumes of three quarters show the export increases by 1.2% (though even this indicator definitely is a positive result). Exports of chemical industry are approximately the same.

The drop in export of ferrous metals to foreign markets is caused by sharp increase in steel production by China (approximately by two times in the last two years) and accordingly increase of China's steel export. This urges the necessity to upgrade technology and to make Ukrainian metal works more competitive.

With the stabilized traditional export flows, the machine building, food processing and agricultural industries made possible the growth of commodities export.

The year 2001 was the most successful for Ukraine's economy ever since her independence. At the time of global economic recession the country increased GDP by 9% and industrial production by 14,2%. The economic growth was supported by increasing activity by 10% in agriculture where record crops were harvested.

The largest growth was in manufacturing coke and petroleum products – 57,1%, timber and wood products – 25,9%, machine-building products – 21,7%, paper and printing industry – 20,5%, food-processing industry – 19,8%, light industry – 15,9%. Positive changes also occurred in agriculture.

We may point out several causes that prompted comparatively high growth rate of national economy. First of all, the demand for Ukrainian products on the foreign markets in 2001 remained high and effected increase in export of commodities by 14,6%. Nevertheless, the exports contributed less in GDP growth as compared to 2000 (Chart 7).

Chart 3.

Geography of exported commodities from Ukraine to the world regions in 2001

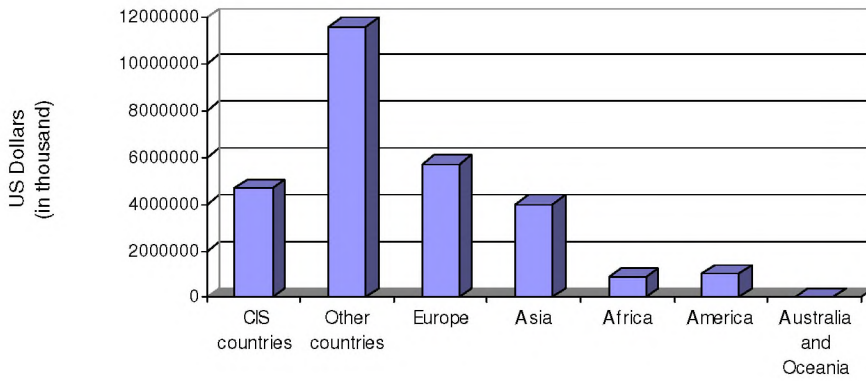


Chart 4.

Geography of imported commodities to Ukraine from the world regions in 2001

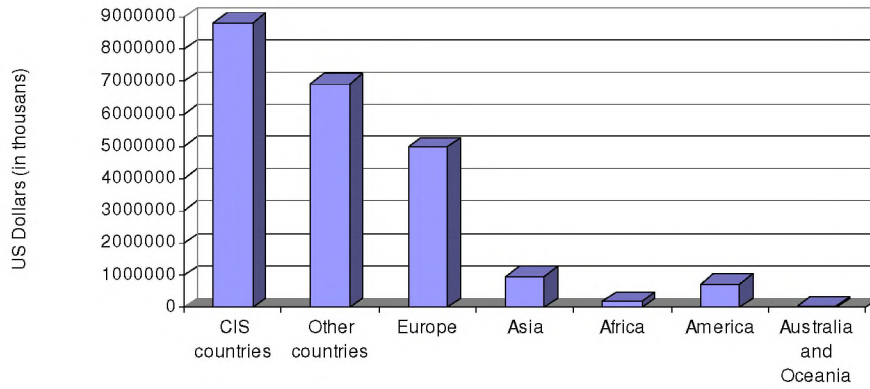


Chart 5

Structure of export of commodities in 2001 (%)

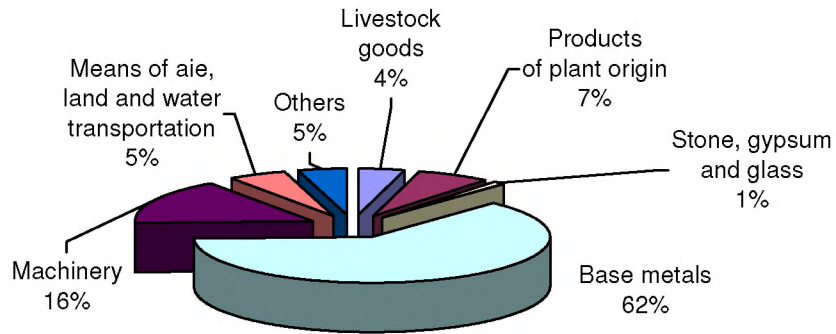


Chart 6

Structure of import of commodities in 2001 (%)

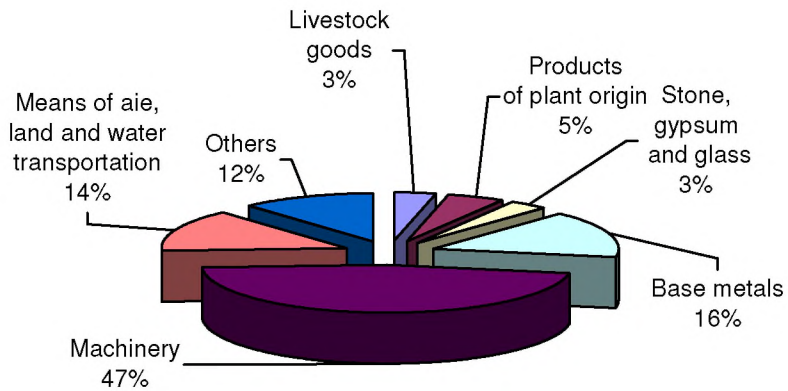


Table 1

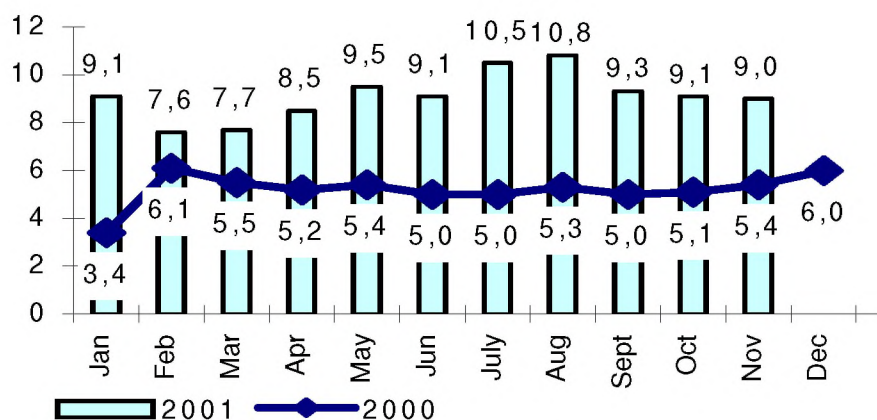
The main outcomes in 2001.

GDP	+9.0%
Industry	+14.2%
Agriculture	+10.0%
Budget performance	100.5%
Inflation	6.1%
UAH/USD	5.2985 (-2.5%)
Currency reserves	USD 3 208 million

The preliminary data on consolidated budget

Chart 7

GDP (increasing yield) in 2001.



It can also be accounted for the growth of internal demand, which fostered the development of domestic-oriented industries, trade and construction.

The reduction of export rates with stable increase in import flows led to gradual deterioration of foreign trade balance.

One of the factors that slowed down the export rates is the Russia's switch to imposition of VAT on Ukrainian goods. Initially that led to drop in Ukraine's export to Russia by 50% per month (July). Overall exports to Russia

10 months fell by 10,8%. At the same time, Ukrainian exporters proved their flexibility – exports to other countries increased by 21,5%.

International experts assess positively the economic changes in Ukraine. According to their estimates, the investors are becoming more interested from Eastern European markets including Ukraine. Those perceptible changes were noted by renowned rating agency «Moody's» reassures the positive trend. The growing rating of Ukraine by the agency reflects the improvement of economic climate in the country.

In 2001, investments fixed capital in CIS on the average increased by 10% (in 2000 – by 18%), and in Ukraine by 17%.

Of the total amount of investments into Ukraine as of January 1, 2002, from USA was US\$730.9 million, Cyprus US\$478 million, Great Britain US\$420.4 million, the Netherlands US\$370.2 million and Russia – US\$295.1 million.

Monetary rates have become the highest ever since Ukraine proclaimed independence. In 2001, the inflation rates were definitely the lowest 6.1% and currency exchange rate of UAH/USD was even more stable than that of EURO/USD and in a year rose by 2,5%. As supply of currency was higher than demand on the market and relationships with IMF were resumed, the National Bank of Ukraine managed to increase its reserves to the record of USD 3,2 billion.

Accomplishments of Ukrainian economy allowed to raise the country's credit rating. The International Rating Agency S&P rated Ukraine for long-term foreign and national currency credit with grade «B» and forecast it as «stable». S&P views Ukraine's rating now as lowered because of political instability and inefficient implementation of structural reforms, namely in privatization of industrial enterprises and power supply industry and also because of restructurization of debts, which the government was compelled to do. «Moody's» agency raised the Ukraine from negative «CAA3» to a positive «CAA1»; the estimate for rating range is «stable». In addition to S&P and Moody's estimates, the Fitch IBCA has shifted Ukraine's credit level to a «B».

At the same time, the analysis of the modern tendencies allows to be sure about the fact that Ukraine definitely have the peak of its development behind in this phase and further Ukrainian economic development is projected to delay plus macroeconomic risks are expected to increase.

All projections for Ukraine's economy forecast the decline in 2002. The majority of experts expect the economic recession, growing inflation pressure, and devaluation of national currency.

Tabl. 2.

Projection of Basic Characteristics

Source	GDP	Inflation	UAH/USD
Government	6%	9.8%	5.75/5.90
National Bank of Ukraine	6%	9.8%	5.60
International Center of Political Studies	4.5%	8.0%	5.63/5.75
International Monetary Fund	3.6%	7.10%	–

Average as per year/as on the end of a year

On January 23, 2002 the USA imposed trade sanctions restricting imports from Ukraine in 23 trade items totaling \$75 million in response to the country's permissiveness to pirate copying of Laser CD's. The imposed by USA trade sanctions would be not easy to lift in the future; therefore, we should be ready for a serious discussion. Even if Ukraine adopts a new law, which presumably complies with the American demands, the USA can conform us with new requirements.

Though the economy's development will slow down, the prospects still remain positive. Most forecasts indicate the growth of Ukraine's GDP by 4,6% in 2002.

Global economic recession is the prime and key factor affecting the economic development of Ukraine in 2002. The economic growth of the countries that import about 2/3 of Ukraine's export (Russia, countries of Europe, USA, China and Greece) is expected to fall by 2,8% in 2001 and that would have its influence over foreign demand for Ukrainian goods. The positive export environment fostered substantially the national economy in the last two years. According to ICPS (International Center of Political Studies), Ukraine could experience the negative balance in the fourth quarter of 2001. Other factors also emerge. The reduced rate of economic growth in the developed countries is at the bottom of protectionist measures like antidumping proceedings against Ukrainian goods. This is of critical for some key industries of the country, such as metallurgy that accounted about 30% of GDP in recent years. Moreover, the economic growth and the monetary policy by National Bank of Ukraine caused the revaluation of national currency. In the middle of November 2001, International Bank fixed hryvna by 29% from the rate UAH/USD 5,435 to 5.2760 starting from 2002. This result has been achieved after strengthening currency since February 2000. According to expert's estimates, the rate can reach 5,250 UAH/USD. This will affect Ukrainian export. The stronger currency makes Ukrainian goods more expensive; and therefore, less competitive on foreign markets. It will also make resources more available for the national economy.

Besides, the negative trade balance could cause some devaluation of hryvna. And finally, as strict copyright law is not adopted, Ukraine would lose about US\$180–500 million from trade sanctions impeded by the USA.

However, such factor as the global economic recession cannot be the determining factor for Ukraine's economy. We should bear in mind that Ukraine is not involved in the world economy as other developed countries are. On the other hand, this relative isolation could be useful for Ukraine but bringing less immediate results, unlike other countries. The major trade partner of Ukraine, Russia also experiences economic boom in the last two years, which can continue in 2002. Ukraine has reestablished trade relations with other CIS countries after the collapse of the USSR. These countries underwent economic growth in the recent several years as well. If Ukrainian exporters retain profit on these markets, they will compensate, at least, losses in the other regions of the world.

National economy is another vital factor, that allows to forecast positively Ukraine's development in 2002. Retail trade turnover rose by 8,9% in 2001. Domestic consumption also increased significantly in the last two years; economy wins more respect among Ukrainian people. The wages and pensions level, though not equal to European standards, grew considerably, the number of private bank accounts grows as banking system is inspiring more trust. Besides, thanks to the policy of the National Bank of Ukraine, inflation rate was lower than predicted. It is also important that cash flow earlier leaving the country now remains in the country to be re-invested into economy.

Ukraine's economy could develop in more stable manner if integrated into global economy. As the country until now is not a WTO member, Ukraine's exporters do not enjoy all advantages available to GATT (WTO) members. At the same time, Ukraine has agreements on most favored nation treatment in trade with most countries. The differences in national systems regulating foreign economy deter seriously the international trade. In some cases, actions, taken for non-economic reasons, are intentionally used as protectionist measures. Therefore, GATT demands to apply such measures of technological and sanitary control that would not impede additionally import of commodities.

Agreements achieved in recent years significantly restricted application and interpretation of rules regulating the foreign trade. Namely, voluntarily imposed restrictions on import and export should be abolished. Counter-measures against unfair competition measures are limited to 5 years term. The WTO monitors correct employment of such measures.

The principles of WTO should be extended to international trade in textile and clothing, regulated now by international agreement on textile by 2005. This agreement stipulates to abolish export-import quotas. Many current restrictions import, being placed by tariff quotas when import exceeding the fixed amount is formally allowed but with the highest duty imposed. Henceforth, on these rates are supposed to be reduced (such measure most of all is applied to agricultural produce).

Ukraine's entrance into GATT (WTO) is a requisite step for our country's integration into the world economic system, the EU in particular.

This is gainful for Ukraine also in the regard that each country member has the right to guarantee national economic security, to protect life, health and property of citizens, and to protect environment.

Moreover, it is to be taken into account the GATT comprises more than 140 countries and by agreement among them any customs and tariff privileges conferred by one country to another country, like status of a most favored nation are automatically applied to others.

We also have to consider the negative side of Ukraine's entrance into the WTO. The early 2002 year showed that the USA ignoring the interests of WTO members as well as of the EU, Ukraine, Russia, and China, unilaterally introduced 30% protectionist duty on steel goods exported from these countries. The countries respond with counter-protectionist measures. For instance, Ukraine and Russia effected the embargo on meat (poultry) exported from USA. Moreover, the copyright problem between the USA and Ukraine (CD's) is not settled yet. China dismissed the USA complains altogether.

As a result, local trade wars take place instead of the status of most favored nation in the WTO.

Therefore, it is becoming more and more evident that with globalization led by the USA, Ukraine can join the WTO only if this organization adopts reservations allowing to take protection measures in critical economic situation aimed to support the national manufacturer in general, and exporter in particular.

Now when Ukraine confidently claims to be politically internationally acknowledged the country should manifest its economic potential more vividly. As the world experience proves, it is possible to seek the decent place on the world market only if taking the following steps: 1) to enter the World Trade Organization; 2) to manufacture the commodities, in demand but cheaper than made by competitors; 3) to manufacture new Hi-Tech and high quality products ahead of demand. In modern conditions Ukraine has to develop new state strategy, create new model for trade and economic relations, based on unified production, export and import in the process of circulation and turnover of capital, and expanded reproduction. Flexible system of protectionist measures should play a significant role, which would allow national exporters to feel more assured and protected.

In current situation, the issue of better management of foreign economic activity in the regions is becoming vital. Now it is dispersed between several departments, whose activity until autumn 1995, was entirely (as they all were of equal status) coordinated by the foreign economic council.

It would be expedient to establish well-staffed departments of foreign economic relations with at least small structural links in cities and districts. And to better management and status of foreign relations (not only economic but humanitarian as well as they are interrelated), it would be reasonable to incorpo-

rate all pertinent departments managed by one person deputy head of regional state administration for regional external relations.

For the period of transition economy, the central general state regulation body regulating foreign economic relations of Ukraine should be brought up to date with full authority of the Ministry.

We have to improve the system of procedures to advance regional foreign trade needs to be improved along with intensification of Ukrainian foreign economic policy in regards to CIS states, Russian Federation first of all, as well as opening up new markets in Asian-Pacific and South-American regions (China and new industrial African states, etc).

It is essential to develop efficient trade policy for further integration into the world economic community, conforming Ukrainian laws to current GATT (WTO) regulations, and laws of western countries aimed to restrain corruption.

The important objective of the Cabinet of Ministers of Ukraine is the export potential by creating favorable economic environment that fosters national production and by rendering services through up-grading production, implementing modern technology processing, warehousing, packing, transporting and selling commodities of machine building, food, light and agricultural industries, by consolidating on traditional markets and trading in new ones.

Scientific research should be commenced to systematically study world sales markets (commodities and services) and provide marketing support for Ukrainian exporters. Trade economic missions, designed sections of Ukrainian embassies abroad, representations of various Ukrainian financial and industrial structures, specialized scientific research institutes and institutions of higher learning should be involved more actively as well as resources of Ukrainian Chamber of Commerce.

The system of foreign trade information needs reforming in terms of state and regional programs, Ukrainian legislation, activity of Ukrainian trade missions abroad, export-import banking activity that would meet the requirements of the time.

It is necessary to open the chain of showrooms abroad, to help in creating joint chambers of commerce and business councils. The work should be continued to provide national manufacturers with information and methodological assistance to with the aim of the world markets to cross and procedures study, technical barriers in trade, to give access to international informational expanse, and database.

To support better national manufacturers, to thwart the threat of interventional imports, to prevent material losses in domestic industries within the framework of the world trade law, the Antidumping Code of Ukraine should be completed. To stimulate national production, which depends on imported raw materials, materials and spare parts that are not manufactured in the country or are in small volumes, it is essential to fix low or «zero» rates of duties.

Unified state policy to impose foreign economic activity should imply inter-departmental coordination for ontime export returns in currency due international clearings, juridical assistance for Ukrainian exporters in payment of debts by foreign companies, imposition of sanctions on those who breach the monetary law.

Current legislative basis regulating foreign trade seems bulky and not systematized, that inevitably interferes with export-oriented businesses and; therefore, leads to the growing infringement of the law in this sphere. It should be taken into consideration that Ukraine strives to integrate actively into international economic structures. Integration allows for equal and mutually beneficial trade based on universally recognized regulations and international right of ownership.

With the aim to modify foreign trade law in force, it is imperative to:

- develop and adopt as a law unified complex program of tariff and non-tariff regulation of foreign trade activity on the basis of which Ukraine prior to entrance to the GATT (WTO) should put into practice the policy of mutual benefit in regards to market access and removal of barriers in trade;
- design universal normative act on regulation of international settlements as a lot of laws currently in force impede tremendously the activity of export-oriented businesses;
- introduce into the *Law of Ukraine* «On Foreign Economic Activity» the concept of «critical import», which made void of President's Decree «On Regulation of Barter Operations in Foreign Trade» of January 27, 1995;
- develop the strategy to protect Ukraine's market and domestic manufacturer on the basis of reasonable and rational combination of protectionist and liberalization policy in foreign trade;
- diversify foreign economic relations of Ukraine to exclude utter dependence of this country from the one country or a group of countries;
- optimize foreign trade law's, first of all, to attract foreign investments. Keeping in mind that foreign investor feels more secure in those countries, where domestic manufacturers are protected. To encourage foreign investments into Ukraine by securing their guarantees;
- stipulate in the law that the share of foreign investment should exceed 25% of authorized capital, moreover, this share should be specified by the law (for instance, not less than USD 10,000). Foreign investment when minimal sum is not defined causes now and again paradoxical situations as minimal authorized capital is not defined for some businesses;
- develop a set of documents aimed to implement efficiently the law on special economic zones and special investment regulations in Donetsk region and other zones of Ukraine;
- create effective monitoring system to control foreign businesses;

- make provisions in bilateral agreements on mutual legal support for cooperation in information exchange pertinent to financial state of companies partners, in foreign trade and operating on the territory of the parties.

In addition to priorities, related to Ukraine's integration into the world economy there should be pointed out some preferred objectives in the development of foreign trade, namely to:

- increase spur activity of regional companies and organizations the foreign market, consistent commodities restructuring of exports and imports;
- re-orientate manufacturers to produce highly liquid commodities, utilize diversification based on extensive marketing research instead of prevalent practice to sell at any price;
- change the structure of exported commodities, reducing the share of raw materials in favor of high technology goods by improving competitiveness of traditional exports competitiveness;
- restore traditional and trade in new markets, Russia and the other CIS countries are priorities;
- expand foreign economic relations with non-traditional partners.

Apart from mentioned above priorities in development of foreign economic activity development, we should stress the necessity to upgrade national production, to make it more competitive; and therefore, to be able to trade in new markets; strengthen position on the present ones. This problem should be resolved both on the state, but on regional level provided by (2,4) regional programs of scientific and technological development.

Positive experience in developing such programs is acquired in Donetsk oblast where Oblast State Administration with the participation of National Academy of Sciences of Ukraine, some state, regional academic and divisional institutions initiated the Program of Scientific and Technological Development «Donetsk Oblast 2002». This Program was agreed with Academician B. E. Paton and Head of State Administration V. F. Yanukovich during the joint meeting of Presidium of Ukraine's National Academy of Sciences (NAS) and Board of Oblast Administration on May 5, 2002.

Academician I. F. Kuras, Vice-Minister of Ukraine Academician V. P. Seminozhenko, President of Donetsk Scientific Centre of Ukraine's NAS Academician V. P. Shevchenko, heads of scientific and educational organizations, oblast enterprises, emphasized the innovative character of the Program. It contains 416 investment projects implementation of which amounts to 14,5 – 18 billion of hryvnas.

Special attention should be drawn to establishment of technoparks, designed to concentrate high manufacturing technologies for competitive goods and environmental protection. It is a question of large-scale technological transformations.

Though «Donetsk Oblast 2002» Program is regional, it is to be considered much more deeper, as problems of scientific and technological development are rather pressing not only for Donetsk, but for other regions of Ukraine as well. Indeed, the experience of Donbas can be applied in other regions of the country.

Fulfillment of the program will foster integration of national economy into the global economy.

Of supreme significance for the development of country's foreign trade relations is resolution of such vital problems as creation of favorable investment environment, better functioning of free economic zones and development of prioritized, etc.

But this is the subject for another article.

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