



International Economy

Yuliia NYZHNYK

**ECONOMIC INTERESTS OF UKRAINE:
PROBLEMS OF DEFINITION
AND IMPLEMENTATION IN THE CONTEXT
OF INNOVATION RENEWAL
(CIS VECTOR)**

Abstract

The paper is concerned with the problem of integrity and coherence of foreign economic policy of Ukraine from the view of priority of innovation model development. On the example of interrelations with the CIS countries ambiguity is demonstrated, and thus, the challenges faced for the implementation of Ukrainian economic interests in this given context. The key problematic issues are defined, which are faced on the way for effective trade and economic cooperation with the CIS, and a series of actions are offered to solve them. The algorithm is formulated for correct definition and implementation of economic interests of Ukraine in the global environment.

Key words:

Economic interests, innovation development.

JEL: 010, 043.

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Nyzhnyk Yulia, Post Graduate Student at the Department of International Economic Partnership,
Ternopil National Economic University, Ukraine.

Though a great many of official documents have been constituted on the governmental level, like Concept, Strategy, Program, a system fault of the government's activity for recent years is a low level (or absence) of state management directed at the formation of comprehensive, sustained, determined by intermediate and final parameters of the process of social and economic development of Ukraine. So far, the attempts to develop the strategic documents on sustained development of Ukraine (i. e. Power Strategy of Ukraine till 2030, Strategy of Innovation Development, Strategy of Economic Growth and Competitive Capacity) are mainly of departmental character, they are based on different preconditions, and finalize with the development of the documents, which have significant discrepancies. No one of the developed strategies and even International Agreements and Plans (in particular, Ukraine- EU Plan of Actions) that were officially adopted, were not made the Program as the algorithm for joint activity of a great number of those who implement the set objectives.

As a result, modern official orientation in Ukraine at outruns type of its development? so far only declaratively is filled with the innovation matter. The expansion of innovation block within the legal environment of the country occurs at the background of shrank practice of national innovation activity. Though Ukraine has been increasing volumes of foreign trade, its positions in international distribution are weak. National economy still occupies the «niche» of low technological energy intensive production. National export is badly diversified and highly sensitive to the world conjuncture. All that makes the competitive positions of Ukraine on the world market vulnerable.

Absence of integral strategy of Ukraine's European integration at the background of active Euro-integration rhetoric of Ukrainian politicians is a paradox phenomenon of present days. In the area of Euro-integration it brought about the following consequences:

- has not been achieved a stable comprehensive progress in the relations with the EU;
- has not been built firm institutional bases for effective cooperation;
- has not been originated an efficient mechanism for quality control over carrying out the key actions;
- has not been established a legible system of responsibility for implementation of Action Plan principles;
- the efficiency of domestic reforms is low [5].

The above mentioned statements are observed to lack reasonable analysis of «advantages» and «disadvantages» of the Single European Area in order to please the ephemeral political aims, and actual suspension of national politicians from the participation in the creation of «rules of play» throughout that

area. Active steps made by RF caused rather rigid opposition among wide political circles, who developed the dilemma between the European and Euro-Asian integration vectors of the development of Ukraine, though it is obvious, that that dilemma is mainly sophisticated, since those vectors are incompatible in time, i.e. Euro-integration is a strategic goal of far removed perspective, while SEA provides an instrument to be applied today.

From the view of how important for Ukraine is its participation in the SEA, we should primarily proceed from the objective estimation what economic value for national economy provide trade and economic relations with the CIS countries.

For 2005–2008 the export to the CIS countries prevailed over the total rates of export growth of Ukraine, that was resulted by more intensive economic growth of these countries, and that enabled to increase their share in the total Ukrainian export. When in 2005 through 2008 total Ukrainian export grew by 1.95 times, the export from Ukraine to the CIS countries – by 2.2 times. At the same time, total import increased by 2.4 times, and import from the CIS countries – by 2.0 times. The share of the CIS countries within the general export structure in 2008 as against 2005 increased by 9.4 % (from 26.1 % to 35.5 %), while the EU countries' share shrank by 6.8 % (from 33.8 % to 27 %), and the share of Asian countries dropped by 1.8 % (from 23.9 % to 22.1 %). It demonstrated a significant importance of the CIS countries for the development of export activity, and high potential of mutual trade.

One of the factors promoting the Ukrainian export potential increase in the CIS environment for 2005-2008 years were high rates of economic growth in these countries, specifically activating of machine-building industries in Russia, which began to restore cooperation relations with Ukrainian partners, and that facilitated exporting of the Ukrainian engineering products.

For 2005–2008 the export of Ukrainian machine-building products to the CIS countries grew by 2.5 times – i. e. from 3.1 bln. dollars to 7.9 bln. dollars, and made 14.7 % of the total growth of Ukrainian export.

In this given context, a specific attention is drawn by the Ukrainian export structure to the CIS countries, which from the view of technology is more progressive than that to other world countries, since one third of the exported goods make the products of engineering industry, and the share of the latter increased from 29 % in 2005 to 33 % in 2008.

Taking into consideration that in general 40 % of national engineering products are exported, and then it is obvious that the trade with the post-soviet countries plays a significant role in ensuring of forward-looking growth of engineering industry being a locomotive of innovation development of Ukraine.

Nevertheless, the fact is, that the structure of commodity export still contains the too great share of the products of rough conversion (raw and mineral, chemical and metallurgy), the specific weight of them makes about half of the total volume of Ukrainian export to the CIS countries. It allows assuming, that the

trade potential of Ukraine with the CIS countries is used inefficiently. Further development of export to the CIS countries, specifically of high-tech products of Ukrainian machine-building enterprises could become an important element of structural reconstruction and technical modernization of national economy in Ukraine, as well as to produce a positive effect on improvement of Ukrainian trade balance and restoration of initial dynamics of economic export sector.

At that, a series of essential **risks** should be taken into consideration pertaining to trade and economic relations between Ukraine and the CIS countries, which could cause the deepening of structural imbalances for the development of industrial complex in Ukraine.

1. Competitive capacity of Ukrainian engineering products is greatly tied to its cheapness under poor levels of post-sale service, and credit support in comparison with the main competitors from the ROW. That is the grave risk for further development of trade between Ukraine and the CIS, so far as traditionally low demands to technical descriptions peculiar to the consumers of post-soviet environment), will increase in time, which will bring about the aggravation of competition of Ukrainian enterprises both, with national producers of the CIS countries, and with the companies of the third countries. Thus, the active trade of national high-tech industries with the CIS countries should be viewed as the source of funds for investment and innovation improvement of their competitive capacity.

2. Dynamics of trade with the CIS countries greatly depends upon political factors, primarily, upon the relations with the Russian Federation, the latter accounts for 70 % of Ukrainian export to the CIS. Constant trade contradictions manifested a real absence of mechanisms for transparent legal regulation of trade conflicts according to the norms of international law. That situation could be explained by excessive energy dependence of Ukrainian industry on the supply of oil and natural gas from Russia (share of energy resources within the total volume of import from the CIS countries made about 60 % in 2005–2008).

Expansion of the world financial crisis became a catalyst for exacerbation of a series of problems of economic cooperation between Ukraine and the CIS countries, including the following:

1. Russia's application of protectionist actions to restrain the import of Ukrainian made goods that actually close some markets for Ukrainian producers.

For example, in spring 2008 Russia was very concerned with the fact, that Ukraine, meeting one of the WTO requirements referring the nulling of import taxes for 60 % of goods, thus making the competitive positions of Ukrainian producers weaker on their domestic markets, would cause the expanded presence of Ukrainian businesses on the Russian market due to re-export of the products from the WTO member countries.

One of the responds to Ukraine's entering the WTO was restrictions made by Russia on 18.08.2008 for import of powdered milk from Ukraine. Probable

losses of Ukrainian milkmen were estimated by the experts from 15 to 25 mln. dollars.

As an act of Agro-industrial Complex support within the frameworks of antirecession program the RF Government on 29.12.2008 adopted the Resolution, according to which sugar was excluded from the list of goods for free trade with Ukraine till 1.01.2013 (though it was provided for, that in appliance with the Protocol on step by step abolishment of tariff exclusions from the regime of free trade of Ukraine with Russia, limitations for sugar and spirit should be abolished in early 2009).

The recidivism of restricted protectionist measures in foreign trade, applied amidst the increase of the world financial crisis phenomena, were the adoption of the RF Government Resolution of 31.12.2008 № 1042, including the list of the following imported from Ukraine goods which are restricted: beef, pork, poultry, milk, cheeses, sausages, sugar, wall papers, **agricultural machines, ball bearings, and fiber optical cables.**

In expert opinion, in Russia there could be introduced extra import taxes, that causing significant losses in metallurgic industry, **machine-building** and agro-industrial complexes [1].

It should be taken into account, that in the Russian export to Ukraine a share of strategic important raw is prevailing, while Ukraine mainly exports finished products of machine-building, where naturally the competition is higher. Therefore, Russia has more opportunities to receive finished goods from the alternative sources.

2. Russia uses its monopolistic position to significantly increase prices in energy carriers with the aim of political pressure or reaching unilateral benefits, and weakening of competitive positions of Ukraine on common markets. One of the destabilizing factors of economic development of Ukrainian industry in 2005–2008 was increasing of price, since the gas price increased faster than the increase of Ukrainian export at that time.

The Agreement concluded between Ukraine and Russia in January 2009 on gas supply in the price of 360 dollars became the factor of worsening the positions of export-oriented industries on the world commodity markets, since these industries are main consumers of natural gas.

3. Mutual use of trade barriers as a means of control over the access of goods on national markets, and restraining of import in the interests of national producers, includes the following:

- antidumping investigations, the results of which produce a rather great effect on trade relations among the CIS countries, and are based on the wish to oust the competitors from the own markets and from common sales markets;
- introduction of tariff and non-tariff restraints, due to which the governments control the commodity access on national markets, brings

about the break of ties between the suppliers and consumers, it causes significant business losses and shrank budget revenues. Tariff and non-tariff barriers also cause the incidental losses related to the fact, that the states have to spend significant expenditures for customs clearance procedures, that eventually brings about the restraint of competition, increase of price on foreign markets, lowering of motivation to make technical modernization of national economic industries. Though there are agreements of 28.09.2001 on the order of application of technical, medical, pharmaceutical, sanitary, and phytosanitary standards, norms, rules and requirements to the goods imported to the CIS countries, those standards do not correspond either to the international or the EU standards, and that could lead to deterioration of trade relations, and they are the effective instrument to oust the competitors from their own markets [2].

The peculiarities of modern global and national development demand from Ukraine and the CIS countries new approaches to the building of relations in strategic perspective. They should be based on the restoration and development of trade relations, mutually beneficial use of export potentials, expanding of scientific-technical cooperation.

To liquidate the effects of the world financial crisis, Ukraine needs to develop and implement a series of actions respective getting over together with the CIS countries the crisis phenomena in economy, including the following structural elements:

I. Actions in trade and economic area

1. To conclude bilateral intergovernmental agreements with the CIS countries on simplification of customs clearing procedures.

2. To analyze the activity of trade and economic Ukrainian missions in the CIS countries with the aim of cooperation improvement of Ukraine in foreign trade, in particular, on account of enlarging the number of representative offices of Ukrainian and joint ventures in the CIS countries.

3. To activate the Cabinet of Ministers of Ukraine, Ministry of Economy, Ministry of Industrial Policy of Ukraine for the development and approval of a series of actions aimed at financial support provided to Ukrainian enterprises of machine-building complex and chemical industry, i.e. producers of high-tech products, which makes the strategic export to the CIS countries in order to reduce the cost value, and improve its quality ensuring high competitiveness of these goods.

4. Together with the Ministry of Economy of Ukraine, Trade and Commerce Chamber of Ukraine, and similar organizations of the CIS countries to activate the work of the Ministry of Foreign Affairs respective data exchange in the following fields:

- perspective Ukrainian exported and imported into Ukraine goods, paying specific attention to monitoring of the commodity group which makes a significant specific weight in the Ukrainian export to the home country, and changes in conjuncture that could bring about reduction of their supply;
- changes in tax, tariff, and non-tariff policy that could effect the bilateral trade and economic relations;
- investment offers and tenders;
- plans for holding international exhibitions, and fairs in the home country;
- anti-dumping, special investigations made in the home country, or other trade restrains concerning export-import of goods, etc.

5. Activation of cooperation in the field of standardization, certification, introduction of international standards, and improvement of production, cooperative, and trade cooperation.

6. Creation of free trade zone within the CIS with no exclusions and restraints, and with establishment of inter-state body for the solution of trade misunderstandings. The free trade zone within the frames of the CIS will facilitate the following:

- increase in the volumes of export from Ukraine to the CIS countries, first of all to Russia;
- self cost reduction of Ukrainian exporter products due to reduction of price in imported raw material and accessories as a result of tariff restraints abolishment.

II. Actions in customs and tariff area

1. To develop and implement a series of actions promoting harmonization of relevant national acts, which ensure mutual recognition and application of both, legal and illicit actions of non-tariff regulation of trade among the CIS member countries.

2. To activate work of Inter-state Ukrainian-Russian Commission «Yuschenko–Medvediev» concerning the solution of basic questions of mutual trade, specifically these respective quotas abolishment, minimization of restraints, and custom taxes.

III. Actions in the area of scientific-technical cooperation

1. To formulate the programs of multilevel scientific-technical cooperation on the level of enterprises (promotion of joint projects); on inter-state (creation of joint scientific-technical programs); on global (development of multilateral cooperation in competitive industries); to set up Joint ventures, manufacturing of innovation competitive products.

2. To support the establishment of trans-national finance-industrial groups (TFIG) on the basis of intergovernmental agreements in the industries determined by the Law of Ukraine «**On Priority Directions of Innovation Activity in Ukraine**», in particular, in the following areas: manufacturing of vessels, space and aviation equipment, weapon, equipment for atom power.

Taking into account, that it is just in machine-building industry that financial, material and technical, and intellectual resources are concentrated, the TFIG establishment will promote the speeding up of innovation development due to the use of imported high-tech facilities, or purchasing of licenses and know-how, also it will enable to improve the effective secure, development and internationalization of the production in national enterprises, as well as it will promote to improve the competitiveness of Ukrainian products on the world markets.

3. To build up joint institutions, like Joint Trade Chambers, Joint Committees and Association of Business Cooperation between Ukraine and the CIS countries, Ukrainian Trading Houses in the CIS countries, which would promote Ukrainian goods and services on respective markets [3]?

It should be admitted, that from the view of the trade structure, the objectively interested party in the development and institutionalization of trade relations with the CIS, is just Ukraine itself. Nevertheless, Ukraine is lacking at least the reflexive strategy. The European Economic Partnership if mentioned today, exclusively exists in a political context, and its implementation actually has been sustained, because of many reasons, among which is the loss of interest on the side of Russia.

Obvious is the fact, that because of discussions about Ukraine's participation in the WTO and the EU, more general questions of Ukraine's behavior in the globalized world are beyond the attention of officials, politicians, and, unfortunately, of expert community. Meanwhile, the answers to these questions will have to become the basis for the development of the economic policy of Ukraine as a whole, and its foreign economic component, in particular, since without the formulation of integral and realistic vision of the problems and opportunities Ukraine will face in the globalized world, it is very difficult to take adequate decisions, primarily, the strategic ones.

That situation enables the necessity of setting up and supporting the process, which has to involve, first, **analysis of modern world economic trends**; second, **separation** of the issues (**threats and opportunities**), which in this context Ukraine should solve; third, **development and implementation of proper economic policy**. This logic is understandable, but its practical application, in its turn, primarily needs qualitatively new thinking of the officials and politicians. We can ascertain, that Ukraine's capabilities in medium- and long-term perspective depend upon how soon and adequate the Ukrainian political elite and officials will learn to think globally. That process of «globalization» in thinking and behavior of national elite is a real revolution in its essence and consequences, and without that revolution the so called «Ukrainian breakthrough» could be expected in vain.

Globalization sets the concrete challenges before Ukraine. Those challenges should be met by state policy, and the adequate responds to those challenges could be viewed as the criterion of the effectiveness of the policy (actually, the efficiency of the functioning of the state as an institution). In other words, the effectiveness of the state in modern globalized world is primarily determined by its ability to adequately respond to changes occurred in foreign economic and political environment. At that, the basic (and instrumental) is the **ability to clearly determine and formulate the economic interests of the state within the global environment.**

That activity could be developed exceptionally as the process consisting of several components.

On the **conceptual** level the analysis and formulation of the problems and probable variants of responds should be made by independent analytical national and foreign centers, and reformed state research institutes. The central organs of state power within the scopes of their competence should also accumulate and analyze the respective information concerning the world economic processes.

On the **institutional** level that information should be really used by the Ministry of Economy. It is just that organ that should become the «brain center» of the Government that finally determines the **directions and parameters** of the state economic policy, at that, these directions and parameters should make the basis for the activity of the Government and other central organs of the executive power.

Specifically under these conditions the integrity and consistency of the state policy could be ensured, and only in that wise the system failure could be surmounted of actual governmental model, described by the availability of separate foreign economic policies of subject Ministries with rather sophisticated system of horizontal coordination of respective activities among Ministries and Departments. It could be well exemplified by «gas» relations between Ukraine and Russia, which are implemented by the relevant Ministry and Oil Company «Naftohaz of Ukraine», while the Ministry of Economy and Ministry of Foreign Affairs stay beyond that process [4].

In other words, in addition to practicable solution of the problem of the **creation of integral foreign policy** in the wide sense, today Ukraine has to **build up the interrelation among the central organs of executive power** in such a way, that their actions produce a **synergy effect on the implementation of its economic interests.**

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The article was received on May 25, 2010.