



UKRAINE'S EXPORT POTENTIAL: THE PRIORITIES OF INTEGRATION



Volodymyr SIDENKO,
Leading expert,

Ukrainian Centre for Economic and Political Studies

A characteristic trait of Ukraine's export policy remains its inconsistency with the foreign policy priorities announced by the state: integration with the European Union, a deepening of co-operation with Russia and with the U.S. This is demonstrated by the analysis of the geographic structure of Ukraine's exports of goods. In 1999, only 18.3% of goods exported from Ukraine were supplied to EU member countries (while there was a general tendency toward an increase in the EU share)¹, and the share of the former USSR amounted to 29.5%, this figure decreasing substantially (*Diagr. "Geographic structure of Ukraine's exports of goods"*).

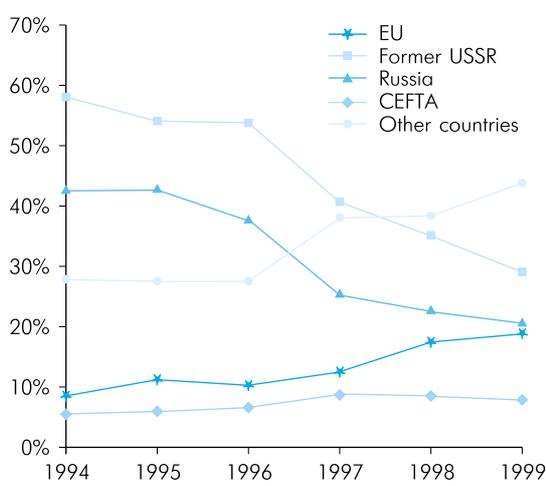
It is worth noting that among the countries of the former USSR, exports to Russia are dominant, amounting to 20.7% of Ukraine's overall exports, or 74% of the country's exports to the CIS. Therefore, it is namely "the other countries of the world" that presently make Ukraine's primary and most dynamic export market.

In relations with Russia, there is a tendency to lose markets, which leads to the overall process of economic disintegration. Other countries of the former USSR, including CIS member countries, and also CEFTA member countries (Poland, Slovakia, Slovenia, Romania, Hungary, and the Czech Republic) play an insignificant role in Ukraine's export. If one is to add that in 1999, 48% of Ukraine's export to EU member countries went to only two countries (Germany and Italy), while for most other EU countries Ukraine is an insignificant economic partner, then the following general conclusion becomes evident: **Ukraine's present-day geographic structure of export supplies reflects the lack of clarity and the weakness in the country's realistic integration strategy with respect to both the EU and CIS. Evidently, there is an inconsistency between political declarations regarding Ukraine's European vector of integration, on the one hand, and the actual practice of development of Ukraine's foreign trade, on the other.**

The main reasons for such a state of affairs can be characterised in the following way.

In the first place, Ukraine is primarily an exporter of ferrous metallurgy production and

Geographic structure of Ukraine's exports of goods



¹ It is worth noting that mutual trade between EU member countries accounts for around 63% of their foreign trade turnover over the last several years. Within the structure of Poland's and Hungary's exports on the threshold of 1998-1999, exports to EU member countries amounted to more than 70%.



other products with a low added value, and is little noticed on high-tech markets. This makes Ukraine a nearly unpromising partner for regional integration both in the West and East alike. It is namely the high-tech branches and technically complex industries that involve international co-operation, and are the main spheres of integration in the modern world economy.

Furthermore, the EU history shows that namely coal mining and metallurgy (as was the case with the European Coal and Steel Community), atomic energy (Euroatom), and later on, a single agricultural policy — that is, the sectors important for Ukraine's economy — were the basis upon which the integration of Western European countries took place. These branches were paid primary attention with regard to mutual international regulation, because they contained the largest problems for member countries. **At present, the entry of new competitors into this supra-national regulated sector can lead to negative consequences for maintaining a balance on the single EU market.**

Secondly, the high level of monopolisation of many markets in Ukraine is paradoxically combined with the absence of powerful transnational corporations (TNC) with global strategies of marketing and foreign investment. But it is the TNCs that have long been the main carriers (subjects) of international integration processes. **No government intentions (declarations, strategies, programmes) can compensate for the absence of the basic mechanism of integration related to TNC activities.** Today, Ukrainian companies are by a factor behind leading European TNCs, given the formers' financial and organisational potential of competitiveness. And this cannot but limit Ukraine's presence on the EU market.

Thirdly, the overall institutional conditions of Ukraine's foreign economic activity are characterised by contradictions, instability, and a low level of fitness for implementing large-scale and

technically complex projects of international co-operation. Under these conditions, the more complex the object of trade is, the more problems the exporters experience. Possibly as a result of this, being a raw materials exporter is the simplest way out. However, the export of raw materials, or semi-finished goods demands the formation of developed international regulatory bodies to a far lesser extent and, therefore, does not actively engender relations of an integrational nature.

Therefore, it is necessary to clearly understand which branches and industries of the national economy will become the forces behind the European vector of development, when declaring the priority of Ukraine's integration into the EU. The naive belief in agreements reached on a governmental level regarding the conditions for integration into the EU is insufficient, because this is, above all, an integration of markets, with mutual activities of the governments of different countries following as a result.

Given the indicated factors, it is of the utmost importance that Ukraine defines its realistic economic (and not only political and ideological) potential for international integration activities, according to possible scenarios. For this, one of the most important criteria in decision-making should be the present-day and prospective state of the country's export potential. Below, individual features of the integration process are outlined according to three principal directions.

INTEGRATION INTO THE EUROPEAN UNION

Present-day practical actions in this direction require the understanding that in order to achieve the end goal, Ukraine needs to undergo a long period of adaptation to the EU institutional requirements, even under the conditions of the radical and effective implementation of structural reforms. **A more realistic and achievable task appears to be the creation of a free trade zone with the EU.** All the more so, as this step can be co-ordinated with the Russian vector of co-operation, if Russia also enters this "expanded European free trade zone".

At the same time, it is worth noting that, given Ukraine's technological lag behind the EU, lifting economic barriers is not likely to give Ukrainian exporters unquestionable advantages. Undoubtedly, in separate sectors that today come under the EU protectionist measures (agriculture, textiles, ferrous metallurgy), trade expansion will be a positive development even for a short-term period. The prospects for machine-building and instrument engineering are more problematic. **Many Ukrainian enterprises outperformed by more powerful European companies will inevitably be liquidated, given the much higher level of competitive pressure on the EU internal market.**



Naturally, the expansion of European companies on the Ukrainian market under free trade conditions could also have a significant positive effect, in the form of the spread of high technology. However, **from the point of view of national economic security, the above-indicated factors favour a very careful approach to the idea of creating a free trade zone in relations with the EU until Ukraine achieves substantial progress in structural reforms on the microeconomic level, with the emergence of strong companies in various sectors, capable of competing on an international level.**

CREATING A FREE TRADE ZONE WITHIN THE CIS

Despite all of the advantages this possibility presents for Ukraine, today, this looks problematic given Russia's very low interest in it. However, the Russian position can change under the influence of the generally positive economic development of that country over the last year. Should this pattern continue, Russia could become interested in expanding its market frontiers for the growing national companies, willing to compete internationally.

This scenario presents Ukrainian exporters with the possibility of making certain economic gains as a result of easier access to the Russian market. However, the overall differences in the pace and scale of economic transformation between Ukraine and Russia means that Ukraine should approach the situation with a certain degree of caution (as in the case with the EU), as **free trade always favours more powerful and competitive companies.**

The task of rapid liberalisation of trade with Russia can, in principle, be achieved by Ukraine entering the Customs Union of Russia, Belarus, Kazakhstan, Kirghizstan, and Tadjikistan. This would immediately allow for the introduction of a regime of completely free trade (without exceptions, or restrictions) in the relations with the members of the Customs Union. This is one of the main goals that Ukraine is pursuing in its relations with countries of the CIS, and its Economic Union in general. With respect to Russia, the following possible positive economic effects might be noted:

- ❖ restrictions on access to imported energy resources would be removed, and the possibility created for obtaining energy resources on equal footing with Russian enterprises; this would signify the effect of the removal of actual oil and gas supply quotas within the framework of international agreements, and the effect of removing export duties for energy resources;

- ❖ the possibility would emerge for significantly improving conditions for the transit of energy resources obtained from third countries,



such as Kazakhstan and Turkmenistan, over Russian territory;

- ❖ a noticeable improvement would occur in the conditions for supplying the Russian market with Ukrainian goods (sugar, alcoholic beverages), whose exports were seriously damaged by Russia's application of quantitative restrictions;

- ❖ better conditions for implementation of international co-operation projects as a result of lowered transaction costs, and the creation of better conditions for implementing the principles set down in the Ashgabat agreements;

- ❖ from a longer-term perspective, the possible slowing down and removal of the negative pattern of losing markets in the Customs Union member countries. Those countries are now creating alternative enterprises and an alternative transit infrastructure, which is not in line with the interests of Ukraine's exporters.

However, **the possible political consequences of membership in the Customs Union of "the five" do not make this choice very promising for Ukraine.**

CHANGING THE FOCUS FROM REGIONAL, TO GLOBAL INTEGRATION

Under certain conditions, this alternative can become the principal one for Ukraine. When compared with the regional group integration scenario, this one envisages a generally slower pace of trade liberalisation, and fewer obligations with respect to the international (supra-national) regulation of economic relations. **It is also more convenient from the perspective of the ideology of Ukraine's "multi-vectored" approach, which currently coincides with the country's current geographic structure of exports. However, prospects for this choice will depend on the possibility of creating strong companies in Ukraine with global marketing strategies. And this scenario can become not an alternative, but a supplement to an effective regional integration strategy, all the more because the economic openness of the regional integrated groups is turning into one of the main principles underlying the new system of global economic regulation.**