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STRATEGIC DIRECTIONS OF DEVELOPMENT OF FOREIGN ECONOMIC ACTIVITY OF UKRAINIAN ENTERPRISES IN THE WORLD MARKET

СТРАТЕГІЧНІ НАПРЯМИ РОЗВИТКУ ЗОВНІШНЬОЕКОНОМІЧНОЇ ДІЯЛЬНОСТІ УКРАЇНСЬКИХ ПІДПРИЄМСТВ НА СВІТОВОМУ РИНКУ

ANNOTATION

In the context of globalization, the company's exit into the international market becomes an integral component of the development of both the enterprise itself and the country as a whole. It is all the more difficult to talk about the possibility of long-term viability of companies, focused only on the domestic market. Instead, the global market for goods and services is extremely capacious. The article analyzes the factors and problems that accompany domestic enterprises in the implementation of foreign trade operations on the basis of the analysis of data in the Doing Business rating. The recommendations for improvement of Ukraine's position on the world market of goods and services are formed due to the introduction of systemic changes in the course of customs clearance.

Keywords: foreign trade, trade in goods and services, Doing Business, export, import.

АНОТАЦІЯ

В умовах глобалізації вихід підприємства на міжнародний ринок стає невід'ємним компонентом розвитку як самого підприємства, так і країни в цілому. Все складніше говорити про можливість довгострокової життєздатності компаній, орієнтованих тільки на внутрішній ринок. У статті проаналізовано дані країн, що є основними торговельними партнерами України та побудовані їхні профілі за рейтингом Doing Business. Сформульовані чинники та проблеми, які супроводжують вітчизняні підприємства при здійсненні зовнішньоторговельних операцій на основі аналізу даних рейтингу Doing Business. Сформовано рекомендації щодо покращення позиції України на світовому ринку товарів та послуг за рахунок впровадження системних змін при проходженні процедури митного оформлення товарів.

Ключові слова: міжнародна торгівля, торгівля товарами та послугами, Doing Business, імпорт, експорт.

АННОТАЦИЯ

В условиях глобализации выход предприятия на международный рынок становится неотъемлемым компонентом развития как самого предприятия, так и страны в целом. Все сложнее говорить о возможности долгосрочной жизнеспособности

компаний, ориентированных только на внутренний рынок. В статье проанализированы данные стран, которые являются основными торговыми партнерами Украины и построены их профили по данным рейтинга Doing Business. Сформулированы факторы и проблемы, с которыми сталкиваются отечественные предприятия при осуществлении внешнеторговых операций на основе анализа данных рейтинга Doing Business. Сформированы рекомендации по улучшению позиции Украины на мировом рынке товаров и услуг за счет внедрения системных изменений при прохождении процедуры таможенного оформления товаров.

Ключевые слова: международная торговля, торговля товарами и услугами, Doing Business, импорт, экспорт.

In the context of globalization, the company's exit into the international market becomes an integral component of the development of both the enterprise itself and the country as a whole. It is all the more difficult to talk about the possibility of long-term viability of companies, focused only on the domestic market. Instead, the global market for goods and services is extremely capacious. For example, Ukrainian enterprises support foreign economic relations with more than 200 countries of the world, which offers significant prospects for the enterprises to operate on it [1].

That is, the geography of foreign trade in products of enterprises of Ukraine is rather broad, but according to the World Bank, Doing Business ranked among 190 countries, Ukraine took only 76 positions. This represents a number of problems, including institutional ones, which

constitute an obstacle for foreign partners and require a solution.

Trade in the modern globalized world is a dominant factor in the development of the country's economy. Statistics show that the growth of world trade rates outpaced the growth of world GDP over the past 50 years on average by 4-6%, and sometimes by 8% annually [2].

However, the development of structural shifts in world trade took place differently. For example, for many post-industrial economies, trends in service delivery volumes, growth in revenues from service activities, increased employment in this area, increased competition, increased exports and imports of services were dominant [3, p. 52].

In the structure of exports of countries with a transitory economy or a transition economy, such as Ukraine, raw materials and agricultural products predominated, and imports were predominantly high-tech goods from developed countries.

The signing of the Association Agreement with the EU on June 27, 2014, namely the trade and trade issues, questioned the determination of existing priority trade flows and strategic directions for the development of foreign trade in Ukraine.

An important place in the balance of payments of Ukraine is its foreign economic activity. First of all, it is necessary to highlight the growth of the role of trade in services, in recent years Ukraine provides a positive balance of trade balance, in contrast to foreign trade in goods. Thus, according to the World Bank, in the Doing Business rating, Ukraine ranked 76th out of 190 countries in 2018 [1].

The Doing Business Report, an annual study by the World Bank Group, estimates the ease of doing business based on 10 indicators. The report is devoted to the assessment of normative acts regulating the activities of small and medium-sized enterprises, and the procedure for their application in practice.

The report is compiled since 2003 and is usually published in autumn. Since 2005 (Doing Business 2006), the report contains a list of states on ease of doing business, and since 2006 (DB 2007) countries are also ranked by indicators. In addition, Doing Business researches not only point to problems that impede the development of entrepreneurship, but also determine their causes and provide recommendations for the necessary reforms [1].

The rating is formed by 10 categories. To climb in the overall rating of Ukraine allowed success on four of them. So the breakthrough this year has become the indicator "Obtaining Permits for Construction", where our country has grown by 105 points (from 140 to 35). The key role in this was played by the reduction of Kyivgorovsat the size of share participation in infrastructure development from 10 to 2% and the reduction of the cost of services for technical supervision in construction.

In the category of "Taxation", Ukraine has grown by 41 points (from 84 to 43), due to the reduction and unification of the Single Social Contribution. In addition, the country has advanced on the indicators "Connection to power supply" (from 130 to 128) and "Solution to insolvency" (from 150 to 149) [1].

In the other six categories, Ukraine has worsened its position. The most failing was the "Establishment of Enterprises", where the state fell to 32 positions (from 20 to 52). The index "Protection of minority investors" (from 70 to 81) decreased by 9 points "Receipt of credits" (from 20 to 29) for four "International trade" (from 115 to 119) and for one item Ukraine lost in categories "Registration of ownership" (from 63 to 64) and "Enforcement of contracts" (from 81 to 82) (figure 1).

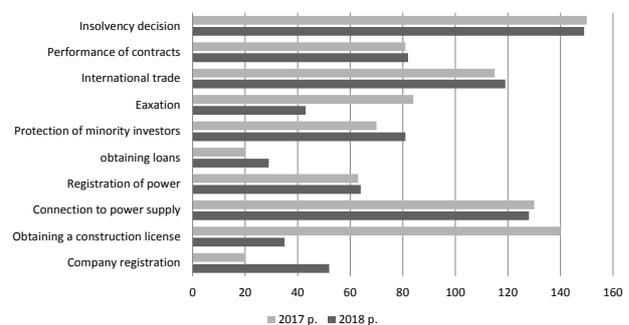


Fig. 1. Profile of Ukraine in the Doing Business rating, 2017-2018

Within the framework of the project of the strategy of sustainable development of Ukraine up to 2030, developed by Ukrainian experts with the support of the United Nations Development Program in Ukraine and the Global Environment Facility within the framework of the project "Integration of the provisions of the Rio Convention into Ukraine's national policy", Ukraine should occupy 33 positions in the Doing Business rating [4].

Headed Doing Business 2018 New Zealand. Followed by Singapore, Denmark, South Korea and Hong Kong. Georgia has occupied 9 place, Estonia 12, Lithuania 16, Latvia 19, Germany 20, Poland 27, Russia 35, Kazakhstan 36, Belarus 38, Moldova 44. IZ the region Central and East Europe Ukraine in the ranking, took the penultimate place, one position ahead of Kyrgyzstan.

Ukraine's place on such positions is primarily due to the complex structure of the economy and a number of institutional problems, which become an obstacle to strengthening and intensifying export-import operations of domestic enterprises, although foreign trade volumes amounted to 0.87% in world trade volume (0.93% in 2016) [5].

According to the State Statistics Service, foreign trade operations in Ukraine were carried out with partners from 193 countries. The volume of Ukraine's exports of goods and services in 2017 totaled \$52,329.6 million, imports –

\$54.995 million. Compared to 2016, exports grew by 16.0%, imports – by 23.3%. Negative balance of the foreign trade made up \$2,625.4 million (in 2016, positive balance – \$541.6 million) [5].

Exports of goods in 2017 amounted to \$43.266,6 billion, imports – \$49.598,5 billion. Compared to 2016, exports increased by 19.0% (by \$6.904,9 billion), imports – by 26.4% (by \$10.348,7 billion). Negative balance totaled \$6.331,9 billion (in 2016, negative balance – \$2.888,1 billion).

According to the State Statistics Service, in 2017, exports of services amounted to \$10.446,6 billion, imports – 5.359,2 billion. Compared to 2016, exports grew by 5.9% (by \$578.6 million), imports – by 0.6% (by \$32.7 million). Positive balance totaled \$5.087,4 billion (in 2016, positive balance – \$4.541,5 billion) [5].

The main trading partners of Ukraine were the Russian Federation, Turkey, China, Egypt, Italy, Poland, India, Germany, Spain and Hungary (figure 2).

As we see, the Russian Federation still occupies a significant percentage in trade relations with Ukraine. This is primarily due to the transit of Russian gas through Ukraine's gas transit system.

But the recent conflict between Naftogaz of Ukraine and the Russian company Gazprom in 2019 could significantly change the structure of Ukraine's foreign trade by refusing to provide gas transit services through the territory of our country and thereby eliminating Russia from this list.

Thus, other countries, such as the countries of Europe, China, India, Turkey and Egypt, should be considered as priority markets and strategic Ukraine, and try to take their experience and possibly the conditions for cooperation to achieve the goal of the position in the World Bank rating.

Doing Business captures several important dimensions of the regulatory environment as it applies to local firms. It provides quantitative

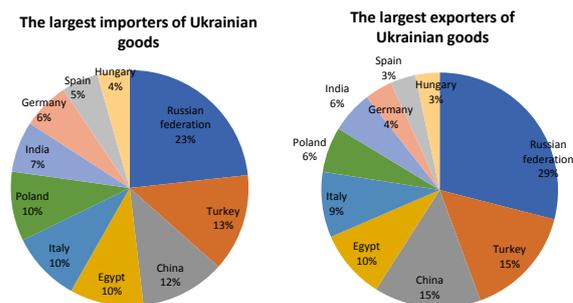


Fig. 2. The main trading partners of Ukraine, 2017

indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (table 1).

Doing Business also measures features of labor market regulation. Although Doing Business does not present rankings of economies on the labor market regulation indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business, it does present the data for these indicators.

To further explore the benefits of the trade policy of these countries and determine the strategic directions for improving Ukraine's foreign trade policy, we will construct profiles for each of them according to the main ten indicators in Doing business'2018 (Figure 3).

The analysis of Figure 4 shows that the charts of countries such as India, China and Egypt are significantly different from those of European countries.

This is primarily due to the fact that they are not EU member states, and therefore each country conducts a separate foreign trade policy.

Table 1

What doing business measures – 10 areas of business regulation

Indicator set	What is measured
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time and total tax rate for a firm to comply with all tax regulations as well as post-filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality

Countries such as Italy, Hungary, Spain and Poland have an international trade index (8) at level 1 which is the highest in the rating and indicates minimal interference in the implementation of foreign trade operations. However, Germany, despite the fact that it is a member state of the European Union, has a level of 39 (in Ukraine it is 119). This is due to the high costs and the amount of time when processing documents for export operations. For example, in Germany, the

number of hours for the export transaction is 36, and the cost is \$ 390, while in Italy this figure is 1:00 free documents, as in Hungary, Poland and Spain. That is, the speed of the workflow and the level of service in institutions engaged in customs operations is at a high level.

Documentary compliance captures the time and cost associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination

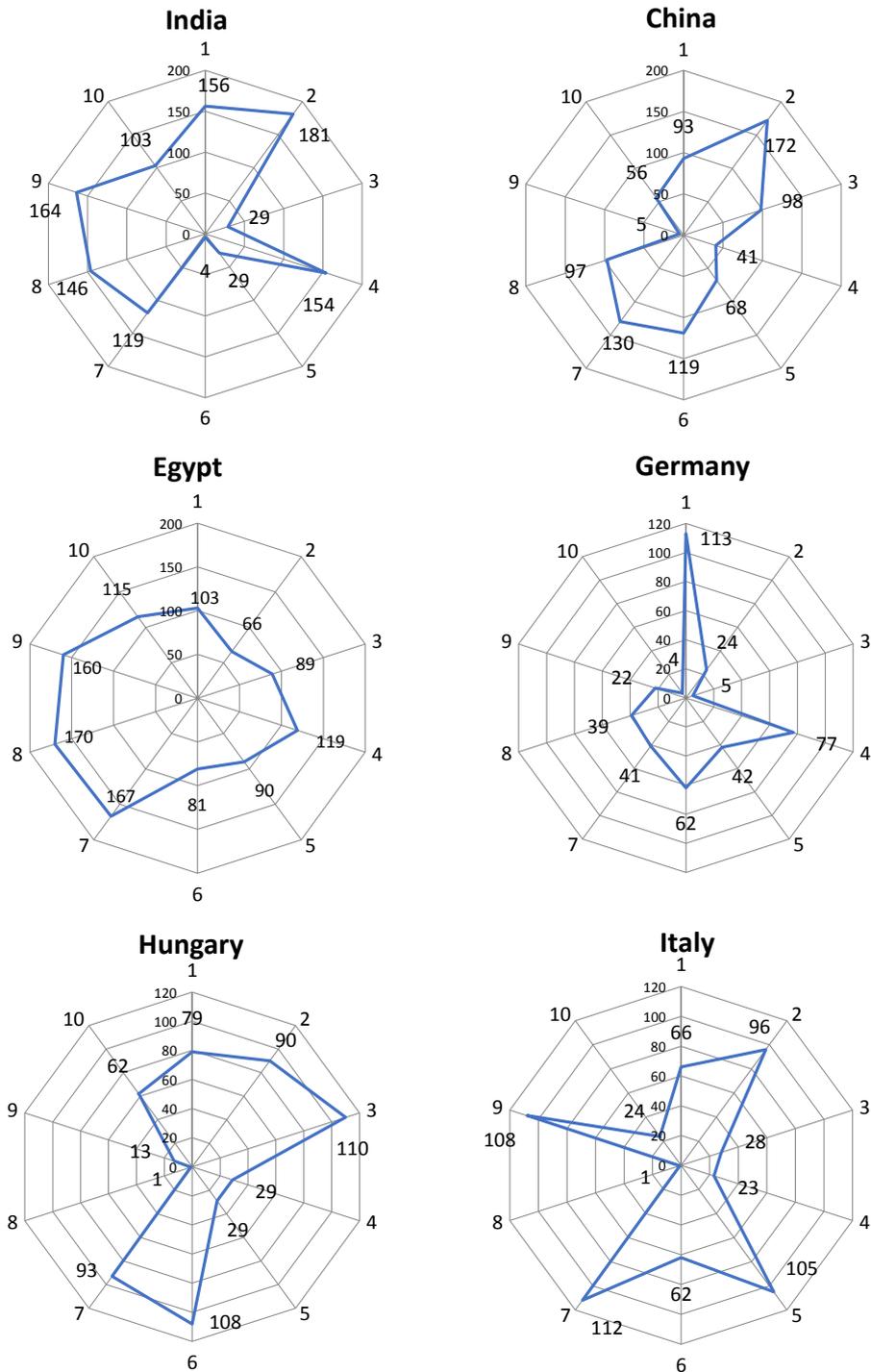
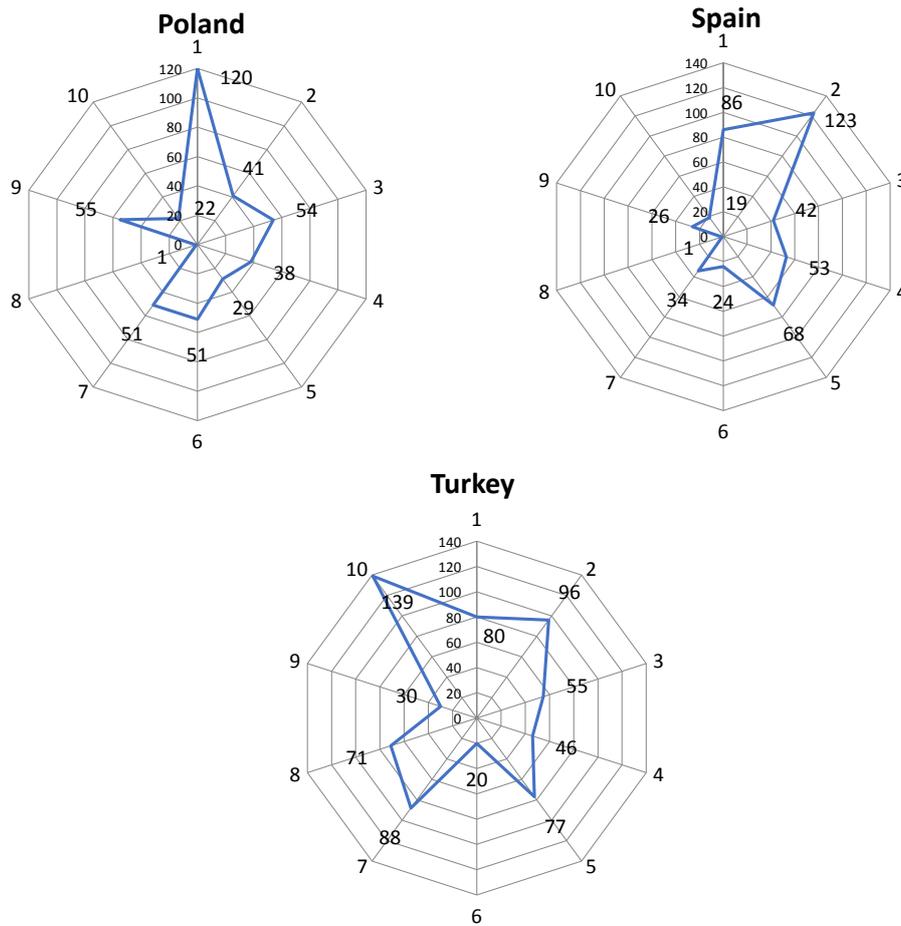


Fig. 3. Profiles of the main trading partners of Ukraine in 2017



Continued Fig. 3

economy and any transit economies (table 1). The aim is to measure the total burden of preparing the bundle of documents that will enable completion of the international trade for the product and partner pair assumed in the case study. As a shipment moves from Mumbai to New York City, for example, the freight forwarder must prepare and submit documents to the customs agency in India, to the port authorities in Mumbai and to the customs agency in New York City [1].

The time and cost for documentary compliance include the time and cost for obtaining documents (such as time spent to get the document issued and stamped); preparing documents (such as time spent gathering information to complete the customs declaration or certificate of origin); processing documents (such as time spent waiting for the relevant authority to issue a phytosanitary certificate); presenting documents (such as time spent showing a port terminal receipt to port authorities); and submitting documents (such as time spent submitting a customs declaration to the customs agency in person or electronically).

Border compliance captures the time and cost associated with compliance with the economy's customs regulations and with regulations relating to other inspections that are mandatory in order

for the shipment to cross the economy's border, as well as the time and cost for handling that takes place at its port or border. The time and cost for this segment include time and cost for customs clearance and inspection procedures conducted by other agencies. For example, the time and cost for conducting a phytosanitary inspection would be included here [1].

Doing Business asks contributors to estimate the time and cost for clearance and inspections by customs agencies — defined as documentary and physical inspections for the purpose of calculating duties by verifying product classification, confirming quantity, determining origin and checking the veracity of other information on the customs declaration. (This category includes all inspections aimed at preventing smuggling.) These are clearance and inspection procedures that take place in the majority of cases and thus are considered the "standard" case. The time and cost estimates capture the efficiency of the customs agency of the economy.

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Doing Business also asks contributors to estimate the total time and cost for clearance and inspections by customs and all other agencies for the specified product. These estimates account for inspections related to health, safety, phytosanitary standards, conformity and the like, and thus capture the efficiency of agencies that require and conduct these additional inspections.

The indicator of international trade of Ukraine needs to be improved both by reducing the cost of customs operations and by improving the systemic component, namely, the registration of documents and the passage of customs control, which means improvement of services in the implementation of export-import operations. In this context, we should talk about transport services, document management, legal services, services in the public sector for the passage of customs procedures, etc.

Experts at the World Economic Forum argued that the main problems faced by Ukrainian exporters are lack of access to trade finance, insufficient level of manufacturing technology and staff skills, difficulties in identifying potential markets and buyers, non-compliance of products with international technical requirements and standards, as well as access problems for import resources required for production [6].

According to the Ukrainian exporters, the least problematic procedures in Ukraine are obtaining a certificate of origin and passing environmental control, and the most problematic are VAT refunds and currency control. Also, the reasons for the unwillingness to export goods remain the unfavorable economic situation in Ukraine, the absence of partners abroad, the burdensome domestic export procedures and the lack of financing and limited access to investment.

So, the fundamental causes of problem areas in the implementation of export operations are the incorrect construction of work at the system level. Ukraine has many trade preferences in foreign countries: the free trade zone, the regime of gen-

eral preferences, the regime of maximum favor, etc. However, the system of correct organization of supply of goods for export is still absent. For example, it seems totally incomprehensible to see weak exports to the United States, where Ukraine is granted general preferential treatment, which, however, is only used by 28% [7].

Therefore, to start eradicating gaps in the country's export policy, it is necessary on system issues, namely, the proper organization of activities. Of course, foreign experience cannot be blindly imitated because in each country the situation is unique.

The development of Ukrainian exports in many respects will contribute to the introduction of changes in the legislation, taking into account international economic conventions. In particular, it is necessary to ensure the possibility of concluding oral contracts, to review the attitude towards invoices and other rules of supply. The state can also contribute to solving the export problems by ensuring internal economic freedoms. However, in resolving these issues, it is not necessary to fully rely on officials. Representatives of business and business associations should actively work in this direction [5].

Also, do not forget that exports are a derivative phenomenon. That without raising its own production and scientific and technical activities, improving the competitiveness and demand of Ukrainian goods is impossible.

Regarding the problems in implementing import operations, the reform of the Customs Service of Ukraine is a priority task of the Ukrainian government, since the irreversible bureaucratic component and the shortcomings of the law-making process bring significant losses to the budget of the country. The Prime Minister Volodymyr Groysman said in April 2018 that the government loses up to 50 billion (\$1.9 billion) due to corruption and smuggling in customs, citing unnamed experts [8].

Other problems in customs are similar to those that afflict the rest of the civil service. Customs officers are paid salaries as low as \$150 each month, for example.

Another issue stems from the ability of importers to declare their goods at any customs point they desire, and not the point at which the goods physically enter the country — a system that allows people to deal with customs officials with whom they may have developed a favorable relationship. Since regional customs offices often do not share data, it also means that customs officials will not necessarily know which goods have physically passed through their port.

Lack of information about customs pervades the government due to a quirk in Ukrainian law that restricts all customs information to within the State Fiscal Service.

Much of the current push to improve the customs service revolves around bringing the institution up to European Union standards, both in terms of how its employees act and in terms of the

data to which they have access. Ukraine's association agreement with the European Union-mandated certain legal changes, including introducing a requirement that importers need to declare goods at the border points at which the goods enter. A serious problem with adopting this law is a lack of money in the state budget to fund the changes, and the fact that the government would need to consolidate its sanitary and health control systems at the border points, and not in the main cities, where they are currently located.

International trade and regulatory liberalization improve the business climate and contribute to economic growth, so the issue of customs automation is becoming increasingly relevant.

The Organization for Economic Cooperation and Development (OECD), in its study "Trade Facilitation Indicators," identifies automation as one of the three key indicators for assessing the effectiveness of procedures when crossing the border. Thus, according to the indicator "automation", Ukraine has been given an indicator of 0.75 and significantly is lagging behind other countries with lower incomes (1.12) and countries that have implemented "best practices" (1.92). Accordingly, the OECD recommends that Ukraine provide full automatic customs clearance improve risk management and improve information systems of customs, which will significantly improve our country's position in the international environment [9].

Automatic customs clearance can become a way out of the current situation on the Ukrainian border at the passing of the customs control procedure. This measure allows solving several problems simultaneously: to accelerate customs clearance and to reduce the cost of import and export of goods for Ukrainian enterprises, to improve the general conditions of doing business and to realize the logistics potential of the country. Also, automation will reduce the role of "human factor" during customs clearance, thus minimizing corruption risks.

In EU member states, through the automation of customs clearance processes, 63% of customs declarations are processed in less than 5 minutes, and 28% of declarations from 5 minutes to 1:00 [10].

Elements of the procedure for automation of customs clearance of goods include automatic registration of customs declarations, automatic determination of the volume of necessary inspection activities (inspection, checking of documents, etc.) under the customs declaration and execution of part or all of the customs formalities by an automated system of customs clearance without the participation of a customs officer. The corresponding draft law on amending the Customs Code of Ukraine regarding the authorized economic operator and simplifications of customs formalities under the number 4777 from 03.06.2016. It is already under consideration in the Verkhovna Rada.

Therefore, in the event of adoption and implementation of the bill, fully automatic customs

clearance will become potentially available to all enterprises. If after the submission of the customs declaration, according to the results of the automatic check, no significant risks are identified, the customs inspector will not be attracted to the control at all the customs clearance will be completed by the computer.

Therefore, in order to achieve the set goal in accordance with the strategy of sustainable development of Ukraine until 2030, within the framework of developing foreign trade relations and promoting the intensification of export and import operations, the Ukrainian government should pay attention to the introduction of institutional reforms and simplification of customs procedures at the expense of the innovative component and the transition to satisfying standards of the European Union. The main obstacles to the expansion and diversification of foreign trade operations are internal problems: the lack of an adequate regulatory framework, effective taxation systems, a favorable investment and innovation climate. Carrying out systemic reforms will significantly reduce the cost and timing of customs control across the Ukrainian border and ensure a significant improvement in Ukraine's position both in the Doing business rating and in world trade in general.

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