

*T.M. STUKACH, candidate of economic sciences,
senior research fellow, associate professor (docent)
Kyiv National University of Trade and Economics*

Diversification of Ukraine's foreign activities in AIC: asian vector

Scientific problem. The importance of food security and agricultural sector development is continuously growing in today's world economic system, which creates the grounds for promotion of the sector in the countries with favorable natural and geographical environment. For Ukraine, agriculture is a strategic sector of the economy. This is primarily because of the fact that Ukraine is the only country possessing 9% of the world reserves of highly fertile lands (chernozem), about 40 million hectare area of land allotted for cultivation of agricultural products; employing about 20% of the country's total economically active population in the agroindustrial complex; generating over 18% gross domestic product. Despite the significant potential of the industry, today development of the agricultural sector of Ukraine is considerably slowed down due to the influence of several destructive factors: general economic instability, worsening of the world commodity market condition, insufficient government support, unresolved problems of the land markets, low yields resulting from imperfection of technologies and obsolete equipment. For Ukraine, agricultural export promotion is very important not only for the industry, but also for the macroeconomic situation improvement. In view of aggravation of problems in the trade relations of Ukraine with Russia, the former largest commercial partner, it is necessary to seek new marketing outlets or increase the volume of trade with the existing partners. In this aspect, diversification of foreign economic activity of Ukraine in the Asian countries with continuous-

ly growing markets becomes mainstream, which constitutes a great scientific interest.

Analysis of recent researches and publications. The aspect of diversification of the foreign economic activities of Ukraine has been studied by many scientists, among which the scientific works of the following scholars are worth mentioning: V. Dudar, A. Potikha, A.V. Solonukha, N. Strochenko, V.M. Tsikhanovska, M.V. Janush and many others. In particular, A. Potikha has fairly pointed out that the agricultural sector has always been one of the priority areas for both foreign trade and internal economic development of our country, because industrial engineering and food security support are relevant at all times for an individual country [5]. V.M. Tsikhanovska believes that strengthening of competitiveness of the domestic agricultural products in foreign markets has been hold back by the following factors [8]: limited number of types of export-oriented agroindustrial products; non-compliance of certain products with the international safety and quality standards for food products. Rapid economic growth and increase in the share of population with average income level in the countries of Asia and North Africa primarily contribute to increase of vegetable and animal food consumption. The scientist believes and we agree that this offers considerable prospects for expansion of the market outlet for domestic agricultural products. As fairly mentioned by R. Dudar, the experience of recent years has proved that the trade partners of Ukraine in the area of sales of the agricultural and food products are reluctant to open their markets to Ukrainian goods in response to Ukraine's pro-

vision of favorable conditions for the import of agroindustrial goods [1]. Despite the significant achievements of domestic and foreign scholars in the selected topic, the possible directions of commercial cooperation of Ukraine and the Asian countries in the trade area have not been researched deeply enough.

The objective of the article is to analyze the dynamics and scope of Ukraine's foreign trade with the Asian countries, identify the most promising partners and areas of cooperation.

Statement of the main results of the study. The dynamics of foreign trade of Ukraine (Fig-

ure 1) shows a rapid decline of foreign economic activity over the last three years. In particular, in 2014, the export volume decreased by 14.86 %, when compared to 2013, the import volumes were curtailed even more (by 29.3 %, when compared to 2013). These negative trends continued in 2015-2016, with the subsequent decline in foreign trade. The foreign trade undergoes a negative influence of the unrest in the east of the country, reduction of the market outlets, decline in business activity, and winding up of the domestic businesses.

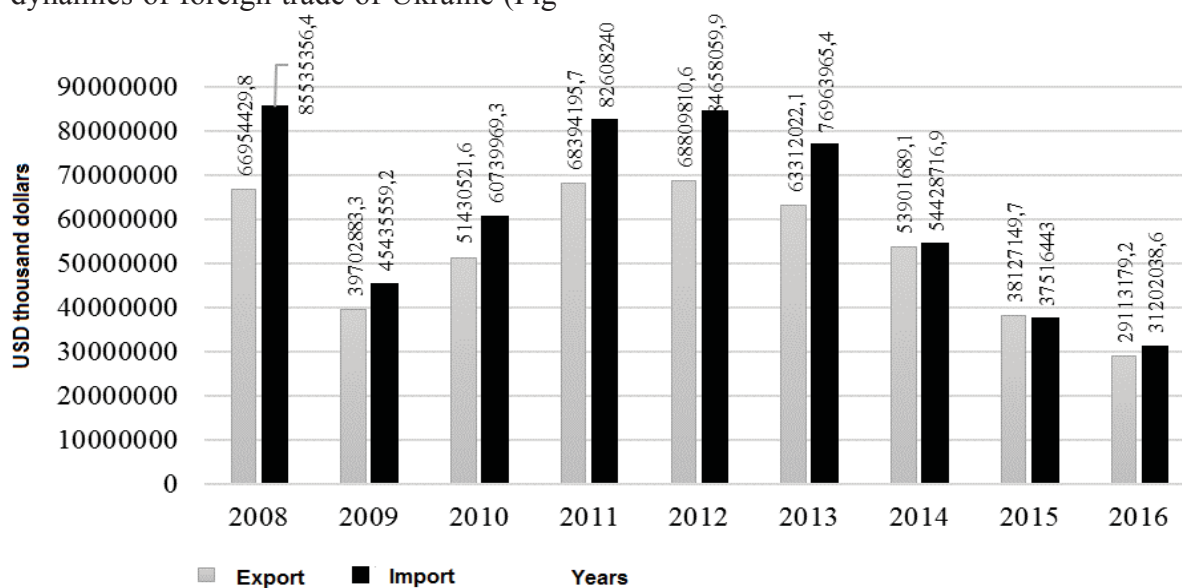


Figure 1. The dynamics of foreign trade of Ukraine in 2008-2016*

*Source: designed by the author according to the data of the State Statistics Committee of Ukraine for January – October 2016.

The structure of foreign trade partners of Ukraine is primarily represented by the Asian countries (46.6% in total exports of 2015), the EU countries (25.3%), the African countries (14%), the CIS countries (11.1%), the USA (0.3%), and other countries (2.7%). Evidently, most of products are exported to the Asian countries, and in the context of a steady increase in the market, the region presents a great interest for Ukrainian exporters.

Thus, today favorable conditions have been created for intensification of domestic exports of agricultural products and expansion of markets owing to the Asian countries, the most promising among which are Japan, South Korea, Vietnam, Pakistan, Bangladesh, Iraq and

China. At the same time, exports to CIS countries have been reduced.

Analyzing Ukraine's foreign trade with the Asian countries (Table 1), it is worth noting that most of the products are exported to Turkey (USD 2771758 thousand in 2015, which constitutes 7.27% of the total exports), China (USD 2399079 thousand, which is 6.29% of the total exports), India (USD 1444087 thousand, or 3.79% of the total exports), Saudi Arabia (USD 761562 thousand, or 2% of the total exports). The share of other Asian countries does not exceed 1.3%. Assessing the dynamics of trade, the tendency for decrease in exports of domestic products to the key partners, including Turkey, China and India, has been observed (Table 1).

**Volume of Ukraine's foreign trade with the Asian countries in 2013-2015,
USD thousand dollars***

Countries	2013		2014		2015			
	Export	Import	Export	Import	Export	Share in the total export structure	Import	Share in the total import structure
Total	63312022	76963965	53901689	54428717	38127150		37516443	
Turkey	3805477.8	1852685	3561365	1299541	2771758	7.27	851742	2.27
China	2726677.3	7900753.9	2674126	5410953	2399079	6.29	3770991	10.05
India	1974747.3	838498.4	1815850	656770	1444087	3.79	443660	1.18
Saudi Arabia	782116.6	183868.4	1031360	205257	761562	2.00	144959	0.39
Iraq	767805.1	151.1	710614	43760	472533	1.24	37.7	0.00
Georgia	533633.9	217909.3	487976	153664	402726	1.06	61757.4	0.16
The Republic of Korea	407531.1	830540.6	510286	478222	395389	1.04	256419	0.68
Thailand	251959.4	200950.3	140646	162877	334900	0.88	120627	0.32
The United Arab Emirates	450421.7	68565.8	394944	66612.7	301767	0.79	57607.5	0.15
Japan	458438.9	984956.7	209561	612576	235568	0.62	382246	1.02
Bangladesh	143488.4	65011.7	152923	68015.5	206963	0.54	53961.1	0.14
Indonesia	318982.5	444994.8	168254	272623	185946	0.49	168812	0.45
Malaysia	191474.9	209381.2	132518	193182	159574	0.42	132092	0.35

*Source: systematized by the author according to the data of the State Statistics Committee of Ukraine.

In general, the structure of export of agroindustrial products is represented mainly by primary commodities, especially oil seeds - live animals, animal products (1.9% of the total exports) - meat and edible meat offal (0.7%), milk and dairy products, poultry eggs, natural honey (1.1%); herbal products (16.2% of the total exports): cereals (12.1%), seeds and fruits of oil-bearing plants (3.1%); fats and oils of animal or vegetable origin (7.1%); finished food products (5.7% of the total exports) - cocoa and cocoa products (0.6%), food industry leftovers and waste (2.1%).

The largest amount of grain and flax seeds is exported to Vietnam, grain and oil to Malaysia, grain is exported to Indonesia, Thailand and the Philippines. However, it should also be noted that the domestic agricultural enterprises supply the products to the Asian countries with higher added value. For example, domestic producers supply albumin (protein) to Thailand; dairy products and flour to the Philippines; flour, starch and eggs to Indonesia, molasses and malt to Vietnam [2]. Ukrainian agricultural products

are very popular in India, especially cheeses and bottled sunflower oil, as well as vegetables.

It is worth mentioning that the agricultural products from Ukraine are competitive in the Asian markets, and the demand for food stuffs corresponds to the commodity nomenclature of the Ukrainian exports. Despite popularity of the Ukrainian products, it is necessary to continue working towards intensification of trade cooperation between Ukraine and the Asian region countries, especially in terms of looking for new business partners, diversifying the commodity and geographical structure of exports, consolidating the existing market positions, and so on.

Asian market is very promising for Ukraine. For reference, the Indian market outlet is larger than that of Germany or Hungary, and the Chinese market surpasses Polish or Italian markets. According to the experts, the Chinese market demand is quite high, which proves the expediency of increasing the supplies of other kinds of products of the food industry, animal and vegetable products to the region. The Chinese markets attract Ukrainian exporters regardless of how changeable these markets may be. And the

purchasing power of the 1.3 -billion people country that tends to grow is another reason why it should be feasible. [4]

The experts also believe that the Chinese market has favorable conditions for entry of the Ukrainian small and medium business. In particular, it is possible due to a significant demographic potential (rapid population growth and, consequently, increased demand for food), and opportunities to increase the demand for products with high added value (wine, alcohol, juices, cheeses, yoghurts and pastries), low standard of living and slow development of agricultural enterprises in Asia contribute to the demand for export of quality certified products, and the products of the agricultural enterprises of Ukraine are competitive in the Asian markets and meet all standards. Ukrainian agrarian enterprises have increased the exports of sunflower oil and grain to the Chinese market. Not only the sunflower oil, but also canola and soybean oils are actively exported. The export of soybean oil to the market of China established a record in 2015: for nine months of 2015, the domestic producers managed to export 54.1 thousand tons in the amount of 38.5 million dollars. [7].

Domestic farmers need to focus on manufacturing the products with higher added value. In particular, it is necessary to increase the national added value in the grain trade by expanding the national participation in the strategic levels of logistics and transport networks and final sales to foreign consumers; optimization of

quantitative, qualitative and commercial losses in the grain sector; diversification of market outlets of the national grain; management of the national reserves of grain for the purpose of optimization of its value in case of economic fluctuations in the world market, etc. [6].

Development of foreign economic activities in the agricultural sector is hindered by the following factors:

in the agricultural area: insufficient financial support from the government; lack of qualified professionals; underdeveloped infrastructure (transport, finance); inexpedient cost of products; obsolete and worn out machinery;

in the processing industry: low competitiveness of the domestic products; high prime cost of the manufactured products; limited sales opportunity; undeveloped market infrastructure; insufficient number of specialists;

in the area of means of production for agricultural purposes: insufficient supplies of agricultural machinery; reduction of new equipment purchases; low coefficient of fixed asset renewal; high energy costs; lack of financial support.

To encourage prospering of the foreign economic activity in the agroindustrial sector, it is necessary to establish the production sector with high aggregation of capital; attract the investments into the agricultural sector; increase availability of the credit resources; boost the labor efficiency due to growth of the investments, etc. (see Figure 2).

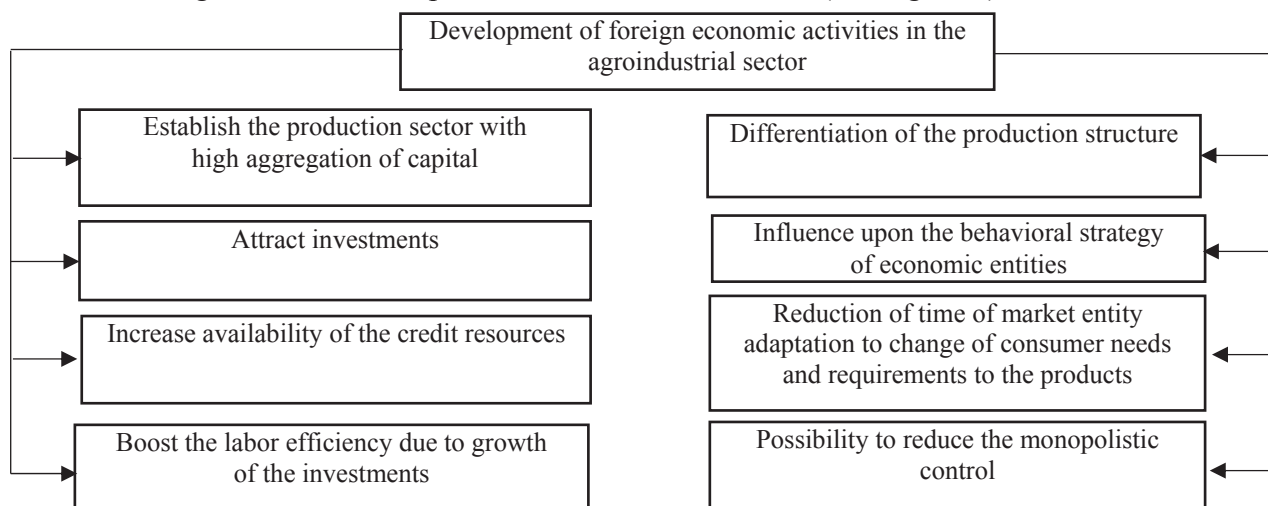


Figure 2. Development of foreign economic activities in the agroindustrial sector*

*Source: author development

Over time, development of the domestic agroindustrial sector can ensure the economic

growth of Ukraine. In this respect, the priority incentives of foreign trade development in the

agricultural sector include: upgrading the efficiency of government regulation of the agricultural sector; providing state financial support for agricultural producers; generating effective mechanisms for agricultural development and export promotion; improving the agroindustrial complex functioning by the innovative development of agriculture; expanding the foreign trade; regulating the export structure by increasing the share of products with high added value; improving the statutory regulation and administrative mechanisms of agricultural sector control; boosting the product quality through introduction of the innovative technologies.

Conclusions. Today's world production environment is characterized by persistent shaping of demand for agrarian products around the world. However, analyzing the dynamics of foreign economic relations of Ukraine in 2014-2016, it is easy to observe certain negative drifts in the agricultural sector, associated with a number of problems.

The Asian countries, namely Turkey, China, India and Saudi Arabia, play a crucial role among the main trade partners of Ukraine. The importance of the Asian region in the world trade of food and agricultural raw materials will significantly increase. This is a promising market outlet for Ukrainian producers.

Strengthening the role of the Asia-Pacific region requires promotion of economic cooperation

between Ukraine and the countries of the region. It is necessary to develop the strategy of public-private partnerships, including within the SCO, ASEAN. Creation of a free trade zone is intended within the framework of ASEAN + 3. Also, the activity of the latter is aimed at development of agriculture, ensuring food security and reduction of poverty in the member countries.

The structure of exports of agricultural products to the Asian countries includes mostly herbal products, as well as the fats and oils of vegetable origin. The largest portion is given to grain crops. The analysis of foreign trade indicates the need for a thorough research of each country's market, intensification of advertisement of the Ukrainian products on the markets of these countries. In addition, scientific cooperation with the Asian countries in the agricultural sector, including foundation of joint research and production companies, requires further promotion.

The key means of export encouragement and foreign trade promotion in the agroindustrial sector should be: incentive of export of products, raw materials and main agricultural means of production; initiation of renewal of fixed assets and introduction of innovative production in the agricultural sector; assistance with and optimization of certification procedures for products; development of the sector of credit and financial support for agricultural production; stimulation of investments in agriculture.

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