

Taras H. Vasylytsiv¹, Ruslan L. Lupak²

STRATEGIC PRIORITIES OF STATE STRUCTURAL POLICY OF IMPORT SUBSTITUTION IN UKRAINE

The paper outlines the current trends in the development of the internal market of Ukraine, which is characterized by the aggravated problem of saturation of both food and non-food product segments by imported goods. Having examined the international experience in domestic production stimulating, it is determined that the state structural policy of import substitution should be implemented in both economic and administrative areas. Analytical estimation of Ukraine's retail trade turnover at posttransformation and post-crisis stages of recovery and development was performed and the conclusion was made that there is a significant increase in country's import dependence, which is backed by the excess of import growth to GDP growth. The purpose and the sequence of strategic priorities as well as measures and tools of state structural policy of import substitution in Ukraine are grounded.

Keywords: import substitution; import dependence; state structural policy; strategic priorities; domestic production; imported products.

Тарас Г. Васильців, Руслан Л. Лупак

СТРАТЕГІЧНІ ПРІОРИТЕТИ ДЕРЖАВНОЇ СТРУКТУРНОЇ ПОЛІТИКИ ІМПОРТОЗАМІЩЕННЯ В УКРАЇНІ

У статті проаналізовано сучасні тенденції розвитку внутрішнього ринку України, для якого характерно загострення проблеми насичення імпортованими товарами як у сегменті продовольчих, так і непродовольчих товарів. Дослідивши світовий досвід стимулювання внутрішнього виробництва, визначено, що державна структурна політика імпортозаміщення повинна бути реалізована за економічним та адміністративним напрямками. Здійснено аналітичне оцінювання роздрібного товарообороту України на посттрансформаційному та посткризовому етапах відновлення і розвитку та зроблено висновок про значне посилення імпортозалежності та перевищення темпів зростання імпорту над темпами зростання ВВП. Обґрунтовано мету та послідовність реалізації стратегічних пріоритетів, а також заходи і засоби державної структурної політики імпортозаміщення в Україні.

Ключові слова: імпортозаміщення; імпортозалежність; державна структурна політика; стратегічні пріоритети; вітчизняне виробництво; імпортна продукція.

Рис. 2. Літ. 15.

Тарас Г. Васильцев, Руслан Л. Лупак

СТРАТЕГИЧЕСКИЕ ПРИОРИТЕТЫ ГОСУДАРСТВЕННОЙ СТРУКТУРНОЙ ПОЛИТИКИ ИМПОРТОЗАМЕЩЕНИЯ В УКРАИНЕ

В статье проанализированы современные тенденции развития внутреннего рынка Украины, для которого характерно обострение проблемы насыщения импортными товарами как в сегменте продовольственных, так и непродовольственных товаров. Исследовав мировой опыт стимулирования внутреннего производства, определено, что государственная структурная политика импортозамещения должна быть реализована по экономическим и административным направлениям. Осуществлена аналитическая оценка розничного товарооборота Украины на посттрансформационном и посткризисном этапах восстановления и развития и сделан вывод о значительном усилении импортозависимости и превышении темпов роста импорта над темпами роста ВВП. Обоснована

¹ Lviv Academy of Commerce, Ukraine.

² Lviv Academy of Commerce, Ukraine.

цель и последовательность реализации стратегических приоритетов, а также меры и средства государственной структурной политики импортозамещения в Украине.

Ключевые слова: импортозамещение; импортозависимость; государственная структурная политика; стратегические приоритеты; отечественное производство; импортная продукция.

Problem statement. The level of import dependence of Ukrainian economy is high. It is confirmed by the presence of decrease in the shares of distribution in the retail trade turnover of goods produced in Ukraine, and the increase in imported products distribution. During 2005–2012 the share of domestic goods distribution decreased from 70.5% to 58.9% (by 11.6%). The situation is especially critical in the field of non-food products, where the share of goods, manufactured in our country, decreased by 15.7% during this period, to 41.9%. Decline, although to a lesser extent, is also noticed for food products (The Statistical Yearbook Ukraine's foreign trade, 2013).

At the same time the state policy of countering import dependence in our country remains inefficient. Crudity of valid methods for the estimation of import dependence level of the national economy, especially by commodity groups and positions, has a special place among the reasons of this inefficiency.

Latest research and publications analysis demonstrated that the assessment of import dependence, its impact on socioeconomic development and management has got considerable attention of such scientists as V. Geets and V. Semynozhenko (2006), R. Grabowski (1994), Y. Kindzersky et al. (2009), N. Lang (1992), A. Mazaraki and T. Melnik (2012), S. Pazizina (2012), K. Pazizina and S. Pazizina (2013), L. Shynkaruk et al. (2011), V. Tochilin et al. (2009), A. Sukhorukov and T. Krupelnyska (2013), Y. Zhalilo et al. (2012).

However, the problem of improving the methods of import dependence estimation and the reasons behind this issue have been insufficiently studied.

Unresolved issues. The increase of import dependence has been a characteristic problem for the national economy of Ukraine for many years. Food domestic production has been losing its market share for many years. The loss in positions of Ukrainian manufacturers of non-food products was more substantial, from 57.6% to 41.9% (15.7%). Moreover, the downtrend in domestic goods distribution was typical for the whole analyzed period. The only exception was 2009, when domestic producers were able to increase the market share of non-food products by 3.5%. But such recovery didn't last long – next year, 2010, the figures dropped even lower than in 2008.

The situation is rapidly deteriorating, only in the last year the share of domestic non-food distribution in retail turnover decreased by 5.3%, for food products – by 0.9%, and in total commodities – by 3.0%. Therefore, we should admit the rapid plunging of our economy and the crisis of import dependence.

The situation is especially difficult for non-food product since it causes significant negative consequences for national economy. Noteworthy here, distribution of non-food products in our country have grown rapidly in 2000–2012 (except for the crisis year of 2009), in particular due to growth of population incomes and improved purchasing power, reaching 242.5 bln UAH in 2012. Last year only the index

increased by 28.7 bln UAH (13.4%), and even in 2009 the figure rose to 104.0 bln UAH (75.1%).

Despite a slight decline in the share of distribution of non-food products (the decline started in 2007 and still goes on; during this period the share of non-food products decreased from 65.0 to 59.8% (5.2%)) and increase of food products share in the retail turnover, the volume of this market segment still remains significant and will grow with the improvement of the purchasing power of population and renewal of consumer credit. It means that retail sales of non-food goods are a huge market that grows rapidly, despite many things.

This increases the need to determine the strategic priorities and improve tactical tools for the implementation of more effective state policy of import substitution in Ukraine.

The research goal is to characterize the current development trends at the internal market at its posttransformation and post-crisis stages, and also grounding the objectives and strategic priorities of the state policy of import substitution in Ukraine.

Key research findings. It should be noted that the presence of imported products as such and a certain dependence of national economy and the internal market on imported goods and services is not a dramatic negative feature at all. Everything depends on volume, level and structure of import, sold at the internal market. In particular, the presence of high-quality and competitive imported products creates healthy competition to domestic goods and makes local producers do better planning, quality management and improvement of basic goods characteristics as well as implement innovations. Otherwise, local manufacturer gets used to the protectionist policy of the government preventing foreign goods and services enter the market, and thus is less interested in the improvement of own production and simplification of business processes.

On the other hand, excessive import dependence is even worse, because in the long term it depresses domestic production and creates increased dependence of consumer market from imported goods and services. The situation may be complicated to the limit when entire sectors and industries stop producing domestic goods and import imposes the price and the quality standards. Of course the market can correct the situation by activation of domestic production, but it may happen with a significant time lag.

So, there are two key alternative directions in state structural policy of import substitution here:

- 1) economic – encouraging the development and strengthening the competitive position of domestic production;
- 2) administrative – implementation of protective measures to prevent or limit the access of imported goods and services to the internal market.

Both options have a number of advantages and disadvantages, and, therefore, supporters and opponents. In particular, the representatives of liberal school not only emphasize the advantages of the economic approach to combating the problems of import dependence, but strongly criticize any protectionist action up to their prohibition. As a proof of their correctness they provide the example of post-war Germany, which, having suffered critical damage, destruction of physical infrastructure and leading industrial companies, did not close its internal market, but, in contrast, chose stimulation of domestic production under healthy external competition and relative-

ly quickly increased its GDP, having rationalised the structure of export and import and becoming one of the leading European and world economies (Kindzersky, 2009; Mazaraki and Melnik, 2012; Pazizina and Pazizina, 2013).

In the early 1970s the policy of import substitution has been criticized perhaps the most for its violation of the principle of comparative advantage. It means that the introduction of artificial direct or economic constraints of import provokes other countries take countermeasures and implement similar restrictions on goods from the country restricting import. We will add that the first man, who paid attention to this, was J.S. Mill (1980), who formulated the dependence of import on export, showing that the country trades to its benefit at foreign market if it covers its import at the cost of its export. Export-oriented development strategy was successfully implemented after the WWII by Japan and the Asian tigers, and since the beginning of 1980s also by China (Lang, 1992).

At the same time there are many people who support protectionism. Not only its advantages but also objective necessity increases at such stages of the economic cycle as decline, recession and depression, and for developing countries as well. Crisis leads to the deterioration of financial and economic opportunities, the reduction of production output and the loss of the competitive position of domestic producers. Under such conditions they are not able to stabilize internal and external situation by themselves and have the real need for government support.

If such support is selective and flexible according to the situation, then normally local production has sufficient capacity for establishing and further development because of availability of such competitive advantage as local material and human resources, smaller logistics and transportation costs. Thus own production of import-substituting goods may be fully justified. An example of the benefits of such a strategy is the positive experience of some countries of South America. However, we should emphasize the discretionary nature of administrative direction in import substitution policy and the selective approach to its implementation in those sectors of economic activities where natural and acquired potential of development is available as well as the advantages of international labour division (Grabowski, 1994). For example, for Ukraine such sectors are agriculture aviation and aerospace engineering, food processing, textiles, furniture, leather, pulp and other industries, transport and communications, services (Pazizina, 2012).

At the moment the economy of Ukraine is at a difficult posttransformation and post-crisis stage of the recovery and development, and the presence of imported goods and services in most segments of the internal consumer market is excessive. This proves the necessity of at least partial administrative state regulation and the solution of the import dependence problem.

The confirmation of the severity of this problem is the trend of GDP and import volumes' change in our country (Figure 1). As can be seen, the pace of import growth throughout the period of 2000–2013 exceeded the rate of GDP growth. The only exception was 2009, when the financial and economic crisis led to the decline in GDP and foreign economic activity slowdown. In turn, particular aggravation of import dependence of the national economy was observed in 2003, 2005, 2007–2008 and 2010–2011, when the growth rate of import exceeded GDP growth rate from 22% to 37%.

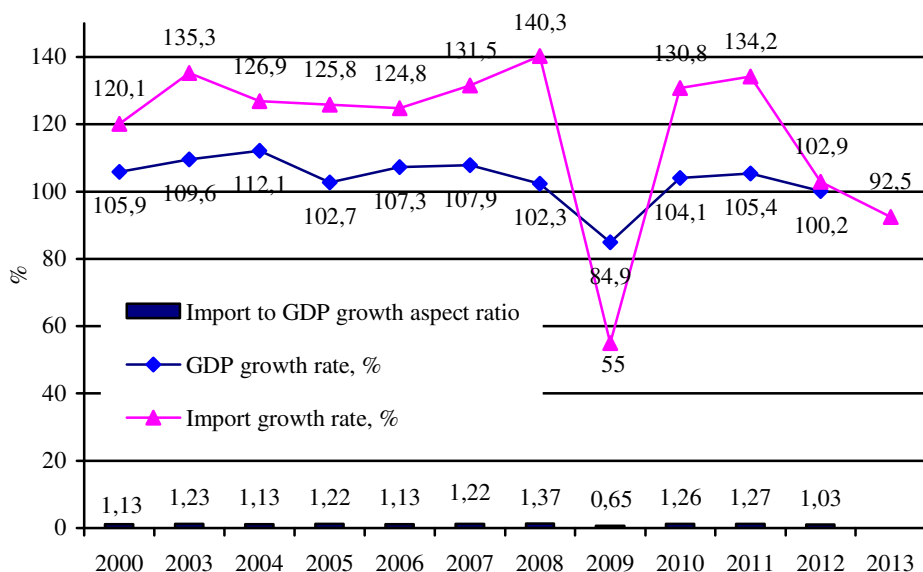


Figure 1. The ratio of GDP and import growth rate in Ukraine, 2000–2013
(The Statistical Yearbook of Ukraine, 2013)

In our opinion, the complexity of import dependence problem within national economy allow, on the one hand, insist on the implementation of administrative measures of import substitution policy, but international experience, on the other hand, proves high efficiency of economic measures. Therefore, we argue that the approach to state regulation of import substitution should be mixed, at least at the early stages. We are talking about the restriction of import for specific commodities, as well as boosting the formation, development and strengthening local production competitiveness.

In addition, the purpose of state regulation of import substitution should not be reduced to the increase of the share in the distribution and consumption of domestic goods (services) and displacement of imported products. It should be more global and connected with irreversible processes of rational structural changes at internal consumer market with a subsequent transition to the abandonment of import substitution policy in favour of strengthening the competitive position and export potential. That is why we consider it expedient to determine such a general purpose of state structural policy of import substitution in Ukraine: ensuring necessary structural changes in the ratios of consumption of domestic and foreign products by strengthening the competitiveness of domestic goods (services), improvement of qualitative characteristics in functioning and development of internal market and the implementation of the export-oriented production policy.

In our opinion, it is necessary to determine the following strategic priorities of the state policy of import substitution in Ukraine, in accordance with above-mentioned purpose (Figure 2): critical decline of import and improvement of its structure, decrease of monopolization and competition development at the internal market, reduction of the shadow sector and creation of a transparent and fair competitive

environment for production and commodity turnover, development of a balanced system in retail, increase of public procurement of domestic goods and services.

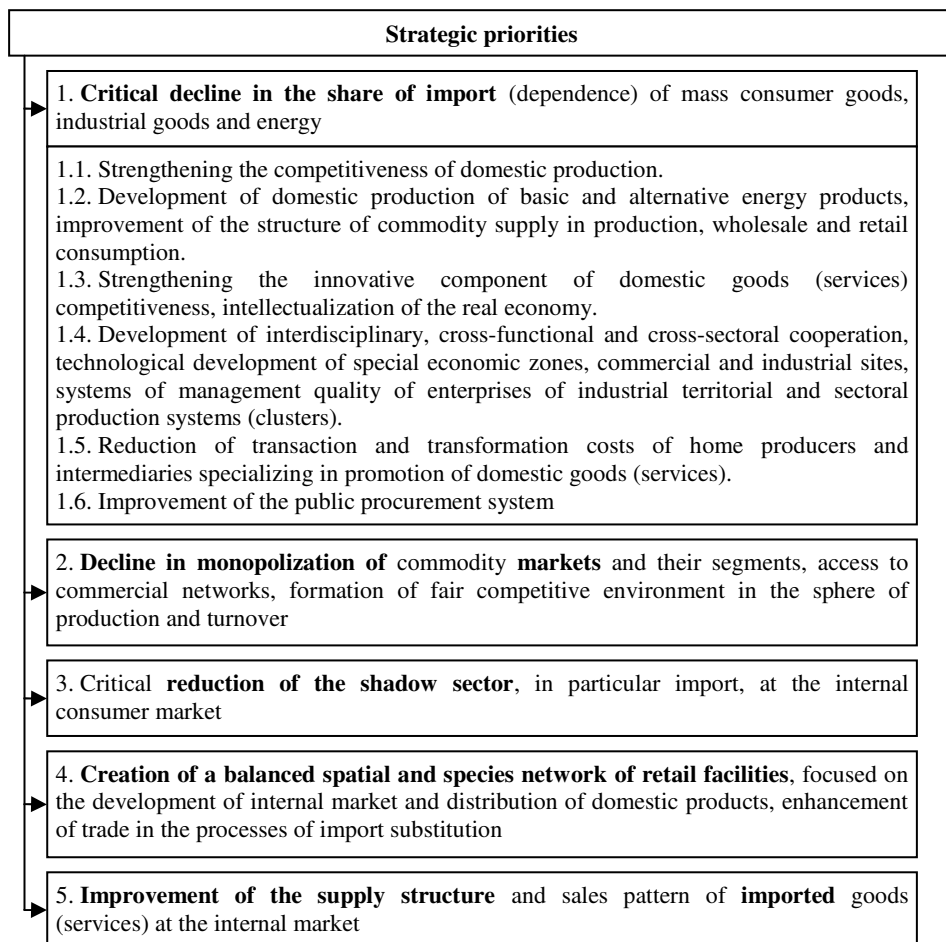


Figure 2. **Strategic priorities in the implementation of state structural policy of import substitution in Ukraine, authors'**

The key priority for the state structural policy in this field is to be focused on radical decline of import. Radical decline means reduction of imported goods ratio up to a certain scientifically based level, determined by such factors as resource capabilities, production capacity and domestic production potential, historical experience and practice of Central European states concerning consumption patterns for domestic and imported goods of certain groups and types, mentality of population.

We suppose that state administration bodies that carry out economic and, in particular, industrial and trade policy should split the import into 3 major sectors: 1) energy products, 2) industrial products, 3) mass consumer goods and services. Accordingly, they should be in the focus of structural policy measures to reduce the dependence of national economy and consumer market in Ukraine on imported

products, as well as mechanisms and regulatory instruments should be differentiated along these directions.

As for the energy sector, significant dependence of our state on natural gas, oil, coal and electricity is well known. Ukrainian economy does not only spend significant funds to purchase energy, but also is politically dependent on price behaviour. As a result, energy commodities compose excessively great part in the structure of domestic consumption of imported energy and their high unfair prices lead to the growing cost of domestic production, thus reducing its effectiveness.

The problems of import substitution of energy resources are particularly topical for the people who have to pay the high cost of expensive resources and services. Therefore, implementing active state structural policy is of critical importance in Ukraine. Firstly, the market of production, storage, distribution and consumption of energy resources has to be streamlined and become more transparent, and, secondly, development of domestic energy production should be promoted, including alternative energy. To do this, we should use the experience of developed countries that have already built financially stable fuel and energy complexes. In particular, European countries actively use alternative sources of energy supplies according to the principle of at least three sources of almost equal volumes (one-third of the total volume) to balance their energy markets.

We should note that Ukraine over the period of its independence has significantly lost its opportunities in production and distribution both internally and at foreign markets of goods and industrial products, in particular designed for the use in technological process, raw materials, natural fuels, machinery and equipment, auxiliary equipment and tools, semi-finished products and components. Possibilities to provide services on maintenance and repair of equipment, engineering etc. are also partially reduced.

Government should guarantee free organization of activities for small and medium-sized enterprises through creating platforms for cooperation of foreign manufacturers of machinery and equipment with the representatives of the domestic sector, organization of production processes by subcontracts, thus substituting imported industrial products by own production to restore capacities and thus to increase the share of domestic production of goods and services.

We should note that perhaps the widest field for activity in the area of import substitution and, consequently, obtaining positive results, concerns critical decrease of the share of consumer goods at the domestic market. Perspective fields here are agriculture and industry, including such sectors as food processing (based on domestic raw materials), light industry (including Ukraine's traditional raw materials – flax, wool, synthetic fibre, genuine leather), metallurgy industry (mining and processing of ores of ferrous and nonferrous metals, non-metals, production of cast iron, steel, rolled iron, steel pipes, metalware, ferro-alloys, hard-alloys, carbon, semiconductor and some types of chemical products), mechanical engineering (in particular, agricultural machinery and municipal vehicles), chemical and petrochemical industry (plastics, rubber and other products) (Zhalilo et al., 2012; Sukhorukov and Krupelnyska, 2013).

The key task of state structural policy, that is to displace the critical import from internal market, is complicated and cannot be carried out only by restraining import,

but also involves active measures aimed at competitiveness improvement of domestic producers and their products. This requires a structural, systematic, balanced, long-term and integrated state policy. Proposed tools are the formation and effective use of financial and investment funds for modernization of domestic production, improvement of financial and economic condition and the formation of the resource base, development of institutional infrastructure of local production and import substitution, tax incentives for the creation of new industries and employment, development and strengthening of intellectual potential of entities of all types of economic activities.

Another priority direction in state structural policy of import substitution should be limiting the monopolization of merchandise markets and their segments, as well as the access of domestic products to retail trade networks by creating transparent and fair competitive environment for all. In our opinion, it can be achieved by expanding the role of the society and public sector in the control. For this reason the extension of competences of public and business organizations should be provided (preferably by institutional means), as well as broader cooperation of NGOs and business organizations, enhanced cooperation between public authorities, business associations and civil society organizations regarding the identification and prevention of monopolization incidents and illegal use of its advantages.

Large volumes of import enter the internal market of Ukraine and successfully compete at it including their presence at the huge shadow market. According to various estimates, the level of shadow economy in Ukraine compose from 40 to 60% or even more (Melnik, 2012).

Here we have identified another key priority in state regulation of import substitution in Ukraine – the improvement of import structure. We are talking about lowering the share of import and the distribution of low quality goods, dangerous to life and health of citizens, environmentally polluting, counterfeit production, smuggling.

In switching from low-quality to high-quality and high-tech goods activities should be launched regarding monitoring and quality control of imported products, fair practices of importers and their partners; anti-dumping and countervailing measures should be applied to the cases of non-observance of the WTO rules by trading partners. Domestic market should be protected from the products dangerous to life and health of citizens; activities should be carried on harmonization of technical requirements and standards to international standards to meet the parameters of national security, in particular, food security, protection of life and health of people as well as the environment. International practice shows that awareness-raising actions and promotion policies can be useful and effective.

The level of retail trade development in Ukraine is still insufficient and is characterized by a range of drawbacks, which hinder the progress of national economy and its branches and complicate countering the import dependence (Sukhorukov and Krupelnyska, 2013). This refers to such disadvantages as the underdeveloped network of retail facilities in rural and remote areas, the lack of specialized shops, including the distribution of high-quality domestic goods, and retail outlets specialized in agricultural products distribution, participation of commercial enterprises in vertical integration, in particular in the formation of joint funds to finance the modernization of production. That's why we consider the development of a balanced spatial network

of retail facilities to be a major point in state regulation of import substitution in Ukraine. At the same time, its formation and development should be aimed at the reshaping the internal market, so that it functions by the rules of international and European regulations, complying with the principles of sustainable development.

It is necessary to establish appropriate institutional, legal, regulatory and methodological support for planning of trade relations between producers and consumers, diversification of activities of retail entities, impact on retail trading in its creation of the social product and development of public production, formation of institutions for investment and innovation development of retail trade, safe environment for trade and overcoming market distortions (Geets and Semynozhenko, 2006; Tochilin et al., 2009).

Conclusions. In our opinion, the achievement of the identified key points will have a complex effect on the development of the internal market and a strong positive impact on the Ukrainian economy overall. However, state regulation stipulates the implementation of specific activities, providing necessary structural changes. Grounding for such actions and offered institutional reforms is necessary for achieving these goals.

References:

- Геєць В.М., Семиноженко В.П. Інноваційні перспективи України: Монографія. — Харків: Константа, 2006. — 272 с.
- Зовнішня торгівля України товарами та послугами у 2013 році: Статистичний збірник. — К.: Державна служба статистики України, 2014. — 156 с.
- Мазаракі А.А., Мельник Т.М. Імпорт та перспективи імпортозаміщення в Україні // Вісник Київського національного торговельно-економічного університету. — 2012. — №6. — С. 5–16.
- Мельник М.І. Формування бізнес-середовища України в умовах інституційних трансформацій: Монографія. — Львів: ІРД НАН України, 2012. — 568 с.
- Миль Дж. С. Основы политической экономии и некоторые аспекты их приложения к социальной философии: В 3 т. — М.: Прогресс, 1980. — Т. 1. — 495 с.
- Пазізіна К.В., Пазізіна С.М. Імпортозаміщення в системі забезпечення економічних інтересів України // Сталий розвиток економіки. — 2013. — №2. — С. 42–45.
- Потенціал національної промисловості: цілі та механізми ефективного розвитку: Монографія / За ред. Ю.В. Кіндзерського; НАН України; Ін-т економіки та прогнозування. — К., 2009. — 928 с.
- Пріоритети політики імпортозаміщення у стратегії модернізації промисловості України: Аналітична доповідь / За ред. Я.А. Жаліла. — К.: НІСД, 2012. — 71 с.
- Ринки реального сектора економіки України: структурно-інституціональний аналіз / За ред. В.О. Точиліна. — К., 2009. — 640 с.
- Статистичний щорічник України за 2013 рік. — К.: Державна служба статистики України, 2014. — 534 с.
- Структурні зміни та економічний розвиток України / За ред. Л.В. Шинкарука. — НАН України: Ін-т екон. та прогноз. — К., 2011. — 696 с.
- Сухоруков А.І., Крупельницька Т.П. Перспективні напрями та інструменти політики імпортозаміщення у промисловості України: Аналітична записка // Національний інститут стратегічних досліджень, 2013 // www.niss.gov.ua.
- Grabowski, R. (1994). Import Substitution, Export Promotion, and the State in Economic Development. The Journal of Developing Areas, 28(4): 535–554.
- Lang, N. (1992). Beyond import substitution and export promotion: A new typology of trade strategies. Journal of Development Studies, 28: 447–472.
- Pazizina, S. (2012). Entwicklung von Prioritätsbranchen der Importsubstitution in der Ukraine. In: Globale und landerspezifische sozio-ökonomische Effekte (ss. 267–276). Berlin.

Стаття надійшла до редакції 28.02.2015.