

Ukraine's trade and economic priorities in the Black Sea Economic Cooperation*

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ABSTRACT. The article is devoted to the substantiation of trade and economic priorities of Ukraine's integration into the Black Sea Economic Cooperation (BSEC). The country's integration options have been analyzed including the Western European vs. pro-Russian integration vector, the bidirectional gravity model, and an alte — native subregional cooperation direction. Ukraine's sectoral priorities for deepening economic cooperation with the BSEC member countries in the context of implementation of the national interests have been identified, in particular in the field of goods, transport and tourism services, and energy trading. The ways of and instruments for improving Ukraine's trade activities within the framework of the Black Sea Economic Cooperation have been offered for the various working groups of the Organization that are focused on such areas of cooperation as macroeconomics, policy and law, finance and economics, science and technology, culture and society, infrastructure, and institutional renewal.

KEYWORDS: regional economic integration, integration course of Ukraine, Organization of the Black Sea Economic Cooperation, trade and economic integration priorities, national interests of Ukraine.

Introduction

Transformation processes are taking place so quickly in today's world that the countries with low and middle levels of socio-economic development do not have time to adequately respond to them, which results in even greater divergence between states, regions and subregions. Therefore, the new world economic order requires the states to pool their efforts in forming an adequate system of instruments, including economic, institutional, and infrastructural instruments, which will enable them to effectively respond to the challenges of globalization. In the context of growing dynamics of economic integration, it is imperative to de-

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termine the trade-related aspects of the deepening of cooperation as the foreign economic activity of the countries is increasingly becoming a key object of integration relations.

The task of looking for mechanisms of adaptation of the national economy to the global economic challenges, especially in the aftermath of the global financial crisis, becomes quite urgent for Ukraine. According to experts, the crisis in Ukraine has acquired a protracted form while in many countries it is already on the wane². This situation makes Ukraine step up its actions aimed at developing and implementing the most adequate model of economic integration and sectoral cooperation with neighboring countries, which should also contribute to improving macroeconomic conditions in the future. The successful solution of national economic problems deepened by the crisis can only be possible under comprehensive facilitation of the processes of global, regional and subregional economic integration.

Theoretical and methodological aspects of Ukraine's economic integration and trade cooperation at the subregional level have been studied by leading researchers and economists such as Yu. Kozak³, Yu. Makogon⁴, V. Novytskyi⁵, G. Perepelytsia⁶, R. Shepherd⁷, B. Tchuzhykov⁸ and many others. In the meantime, it is expedient to carry out a systemic study and substantiation of the trade and economic priorities of Ukraine's Black Sea integration vector, which is the subject matter of this article.

² Yu. Makogon, Prospects for Ukraine's Economy to recover from crisis: foreign economic aspect / Yu. Makogon // Proceedings of International Economic Studies — K.: Institute of World Economy and International Relations (IWEIR), National Academy of Sciences (NAS) of Ukraine, 2011. — No. 1 (66). — pp. 3-25, p 5.

³ Yu.G. Kozak, The role and place of Ukraine in the regional intergovernmental economic organizations: CIS, BSEC, GUAM. / Yu.G. Kozak // Problems of and prospects for development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Odessa-Donetsk: Donetsk National University, Regional Branch of the National Institute of Strategic Studies (NISS) in Odessa, Regional Branch of the NISS in Donetsk, 2008 — pp. 24-28, p 27.

⁴ Yu. Makogon, Prospects for Ukraine's Economy to recover from crisis: foreign economic aspect / Yu. Makogon // Proceedings of International Economic Studies — K.: IWEIR, NAS of Ukraine, 2011. — No. 1 (66). — pp. 3-25, p 5.

⁵ V.Ye. Novytskyi, Black Sea Economic Cooperation in the system of subregional priorities of Ukraine / V.Ye. Novytskyi, V.A. Khomanets // Problems of and prospects for development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Odessa-Donetsk: Donetsk National University, Regional Branch of the NISS in Odessa, Regional Branch of the NISS in Donetsk, 2008 — pp. 851-853, p. 851.

⁶ G. Perepelytsia, The policy of Ukraine towards the BSEC and the Black Sea region [Xenophon paper]. International Centre for Black Sea Studies (ICBSS), Athens, Greece, 2007. — No. 2, p. 146. [Electronic resource]. — Access mode: http://mercury.ethz.ch/serviceengine/Files/ISN/103761/ichaptersection_singledocument/073a508c-e8f2-445d-8993-caf21ad55d62/en/11.pdf.

⁷ R. Shepherd, Romania, Bulgaria, and the EU's future // Current History. — 2007. — Vol. 106, No. 698. — March. — pp. 117-122, p. 120.

⁸ V.I. Chuzhykov, Global regionalistics: history and modern methodology [monograph] / V.I. Tchuzhykov. — K.: Kyiv National Economics Institute, 2008. — 272 p., p. 5.

Regional and subregional integration options for Ukraine

The course of integration into the European Union (EU) is declared in the current national legislation of Ukraine⁹. The aim of Ukrainian foreign policy with regard to this regional bloc is full membership — a goal that realistically can only be achieved in a distant future, after satisfying the so-called Copenhagen criteria of convergence and provided there is any interest on the part of the EU.

The international experience concerning integration processes suggests that an integration policy of a country chosen at the governmental level does not always ensure positive changes in that country's socio-economic progress and welfare of the population. Therefore, it is quite logical that a number of experts see a way out of Ukraine's intricate socio-economic situation in a symbiosis with Russia, pointing to the complexity of adaptation of Ukraine's economy to the economic achievements of Western European countries¹⁰. Indeed, Ukraine has, over the years of independence, hopelessly lagged behind on scientific and technological achievements and has not been successful in innovation, development of management and intellectualization of production. In these circumstances, the country's practical capacity for effective economic integration is higher in relation to regional associations of post-Soviet countries.

Therefore, Ukraine has to consider its integration opportunities versus its national interests, economic benefits and potential threats from membership in these associations. Hence, the increasing popularity of the idea that in the presence of the two major «gravitational fields» with which Ukraine's economic complex interacts — the European Union and the Common Free Market Zone (CFMZ) — the integration vector of choice should be non-excluding and be based on a bidirectional gravity model of cooperation¹¹. However, the level of integration into these structures is justified by scholars in different ways. For example, the concept of «double asymmetric integration»¹² provides for a deepened economic cooperation with the EU and economic integration on the post-Soviet territory. It should be noted however that, on the one hand, the geo-economic bi-directionality of integration of the

⁹ Law of Ukraine "On the basis of domestic and foreign policy" No. 2411-VI of 01.07.2010. / [Electronic resource] / Mode of access: zakon2.rada.gov.ua/laws/show/2411-17.

¹⁰ Yu. Pakhomov, Ukraine and Russia between East and West / Yu. Pakhomov // Economic Journal-XXI, 2010, — No. 5-6, p. 3-8, p.4.

¹¹ A. Filipenko, A bidirectional gravity model of international economic integration of Ukraine / A. Filipenko // Economic Journal-XXI, — 2006. — No. 5-6 [Electronic resource]. — Access mode: <http://soskin.info/ea/2006/5-6/20060501.html>.

¹² G.M. Perepelytsia, A course on rapid rapprochement with Russia: is double asymmetric integration possible? / G.M. Perepelytsia // Yearbook "Foreign policy of Ukraine 2010: strategic assessment, projections and priorities", § 2 (Section III), K.: Stylos, 2011. — pp. 163-222.

country requires additional adaptive efforts, and on the other, promotes a more optimal development of foreign economic activity on the basis of its geographical diversification and multilateral cooperation in certain areas.

It cannot be argued that Ukraine's trade relations with Russia and the EU countries are equally important for the harmonious multisectoral development of the Ukrainian economy. In this context, however, the country should also consider alternatives to the integration direction, the most appropriate of which is the «Black Sea» vector that is implemented through the participation in the Organization of the Black Sea Economic Cooperation (BSEC).

Justification of the priority of the BSEC integration vector for Ukraine

Currently, BSEC membership is held by 12 countries of Eastern and Southern Europe and Southwest Asia (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine). The countries of the Black Sea subregion have a significant potential for trade development because of strong purchasing power: in 2012, the collective population of these countries reached almost 335 million people, compared to nearly 505 million people in the EU. The implementation of the commercial potential of the Black Sea subregion will play an important role in the restoration of traditional trade routes – the Silk Road and «from the Varangians to the Greeks». In addition, the fact that six BSEC countries have access to the Black Sea makes it possible to save on transport costs in carrying out subregional trade.

Priorities of trade cooperation and the integration course of Ukraine are determined by its geostrategic location between several poles of gravity and in several dimensions of interaction: economic – between the developed Europe and Asia rich in resources; integration – between the European Union and the Commonwealth of Independent States; trade – at the crossroads of trade routes in the middle of Eurasia; social – between the Christian and Muslim civilizations; political – between the North Atlantic Treaty Organization and the Collective Security Treaty Organization.

The need to strengthen Ukraine's trade and economic cooperation within the BSEC is necessitated by a variety of conditions:

1) Ukraine's membership in the Organization reflects the single direction of subregional economic cooperation formalized at the institutional level.

2) The intensification of Ukraine's trade cooperation within the Black Sea subregion contributes to the most comprehensive implementation of national economic interests.

3) Economic cooperation with the countries of the Black Sea subregion forms an alternative model of economic integration based on the centrifugal strategic orientations and project-sectoral approach to the conduct of trade relations. In the context of global competitive leadership, the benefits of a modern organization of economic activity in the form of flexible regional-sectoral configurations are coming to the fore¹³. In addition, the implementation of trade cooperation with the BSEC countries and the mediated implementation of transport, infrastructure, and innovation projects will promote effective combination of governmental and private organizations.

National economic interests of Ukraine in the BSEC

In assessing the BSEC model, it should be noted that the Organization's institutional flexibility and differentiated approach to sectoral cooperation makes it possible to take into account the needs of both individual members and their groups in the best way. As far back as 2001, the three key instruments for stimulation of BSEC development were established: «cooperation is better than conflicts», the unity of regionalism and globalism, and the prevention of a new division of Europe¹⁴.

The thesis that Ukraine needs to become a leader in the Black Sea subregion appears increasingly often in contemporary studies. First, Ukraine along with the Russian Federation and Turkey forms part of the so-called «big triangle», as one of the geographically largest and economically most powerful countries of the BSEC. Secondly, it has the real prerequisites to establish itself as a subregional leader «by strengthening constructive influence on the overall situation in the Black Sea subregion»¹⁵.

In the meantime, it is important to define national interests of other BSEC Member States such as Turkey, a potential leader, which had been able to transform the structure of its national economy in line with a market model. The Ukrainian reforms have instead led to the strengthening of — not SMEs, but the public sector of the economy through international loans. Therefore, the current level of socio-economic development of Turkey gives it ad-

¹³ D. Lukianenko, Global modification of competitive market mechanisms / D. Lukianenko, O. Titova // *International Economic Policy*, — 2011. — No. 12-13. — pp. 5-21, p. 13.

¹⁴ The Black Sea Economic Cooperation — BSEC [Electronic resource]. — Access mode: <http://www.bsec-organization.org/Pages/homepage.aspx>.

¹⁵ V.I. Topikha, European integration: cross-border cooperation in the Black Sea basin [monograph] / V.I. Topikha, V.V. Lagodienko, V.I. Goncharenko. — Mykolayiv: Mykolayiv State Agrarian University, 2007. — 300 p., p. 28.

ditional benefits over Ukraine in terms of leadership. For Russia, which has the largest territory, the leadership in the Black Sea basin means development of its southern regions as regards recreation and tourist-and-resort business, achievement of competitive advantages in transportation, expansion of its power grid, and retention of its political, military and economic domination in the Trans-Caucasian region.

The national economic interests of Azerbaijan undergo transformation in the direction of attracting foreign investment in the innovation sector, transfer of technologies to provide technical support to basic export industries including the oil extraction and processing, cotton, chemical and food industries. The economic interests of Armenia are aimed at developing exports of products of the light, electronic and chemical industries as well as agriculture. However, a crucial role in the achievement of economic interests of the countries of the Caucasus and the Black Sea subregion is played by the political component and their ability to solve inter-ethnic conflicts.

Because of their membership in and economic orientation towards the EU, the commercial interests of Greece, Bulgaria and Romania are limited to participation in the projects supported by the European institutions, i.e. transport, energy and certain financial projects. However, for these countries, as well as for Moldova, Ukraine, Turkey, and Russia, the areas in which their mutual interests are in conflict include exports of metallurgical products and provision of transit services.

It should be noted that the national interests of Ukraine in the Black Sea subregion cover the following aspects: growth in the export of goods and services via dynamic trade cooperation within the BSEC; stimulation of the attraction of foreign investment from the BSEC countries and the Black Sea Trade and Development Bank; diversification of gas and oil supplies; effective implementation of the tourism-and-recreation potential and the transit potential of the country; diversification of markets for agricultural produce; development of the North-South, Europe-Russia, and Europe-Asia transport corridors. The Turkish market becomes a stepping stone to geographical diversification of the market for selling national produce and importing oil products and for trade with the Middle East. Cooperation with Greece, Bulgaria and Romania allows Ukrainian products to gain access to the EU market, while cooperation with Russia and the Caucasian countries increases energy supplies.

Thus, Ukraine has a real interest in and economic benefits from multilateral development of cooperation with the countries of the Black Sea subregion. It is interested in the implementation of the BSEC blanket projects on modernization of the existing and cre-

ating new oil and gas terminals, upgrading of metallurgical enterprises and development of electronic equipment for various sectors of the national economy.

Therefore, from the perspective of Ukraine's national interests, economic cooperation in the Black Sea subregion acquires a strategic dimension. Using subregional cooperation as a benchmark of foreign policy, the country gets more opportunities to successfully address the problems of energy supplies, increasing foreign trade and its geographical diversification, gaining additional benefits from the transport and transit sphere, developing the tourist and recreational complex.

Sectoral priorities of trade and economic cooperation between Ukraine and the BSEC

Trade cooperation between Ukraine and the Black Sea subregion is considered both as a goal and a means of deepening the country's international economic cooperation. The basis for regional or subregional integration model is equivalent distribution of the values produced and the values sold in accordance with the selected imperatives¹⁶. On the one hand, industrial relations which remained from the days of the Soviet Union contribute to the development of trade with Russia, Georgia, Armenia, Azerbaijan, and Moldova; on the other hand, modern trends towards commodity diversification prioritize trade orientation towards the European Union. Nonetheless, Russia remains the main partner of Ukraine, the share of commodity trade with which reaches almost 70 % of the turnover with the BSEC (Fig. 1).

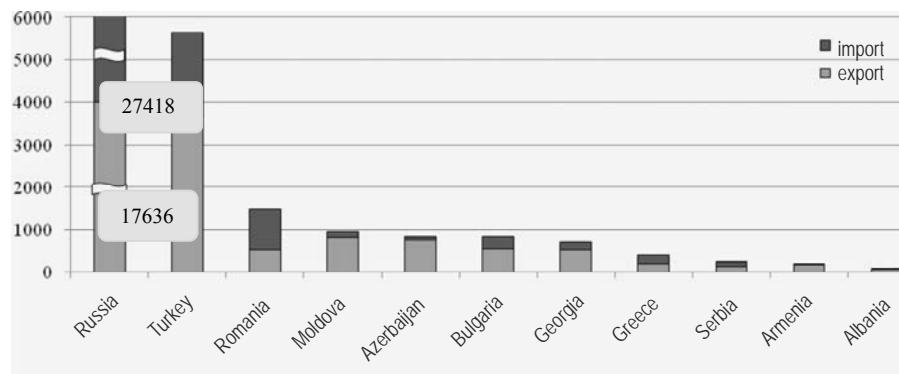


Fig. 1. Ukraine's foreign trade in commodities with the BSEC countries, 2012, millions of USD¹⁷

¹⁶ V.I. Chuzhykov, Global regionalistics: history and modern methodology [monograph] / V.I. Chuzhykov. — K.: Kyiv National Economics Institute, 2008. — 272 p., p. 54.

¹⁷ The official website of the State Statistics Committee of Ukraine [Electronic resource]. — Mode of access: www.ukrstat.gov.ua.

As seen from Fig. 1, Turkey accounts for up to 8.5 % of commodity trade; about 13 % of the entire produce of Ukraine is supplied to the Turkish market which ensures a surplus with that country. At the same time, Ukraine has a negative trade balance with Russia, Romania, and Serbia, while in respect of other BSEC Member States Ukraine's exports exceed its imports.

The structure of Ukraine's commodity exports to the BSEC countries, as to other countries of the world, is characterized by low diversification (Fig. 2).

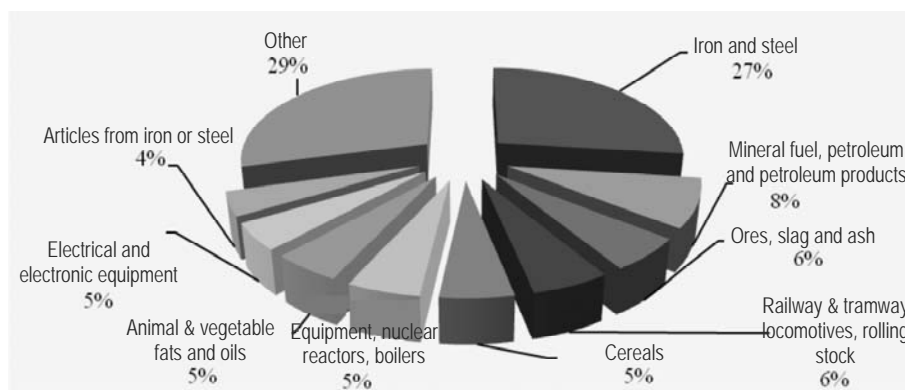


Fig. 2. Structure of Ukraine's commodity exports to the BSEC countries, 2012¹⁸

As seen from the data in Fig. 2, iron and steel and their products, mineral fuels, petroleum and petroleum products prevail in the structure of export, while other commodity groups account for less than 6 % (ores, slag, ash, railway and tramway locomotives, rolling stock). Meanwhile, Ukraine's import from the BSEC is characterized by noticeable monospecialization (Fig. 3).

As seen from the data in Fig. 3, the purchasing of energy constitutes the lion's share of import (petroleum and petroleum products, mineral fuels), which is consistent with consumer demand in Ukraine, on the one hand, but shows a certain dependency on the import of this product group, on the other. Equipment, nuclear reactors, boilers; vehicles for land transport except for railway and tramway transport; electrical and electronic equipment; and plastics and their products account for 4 % to 9 % of Ukraine's imports. The situation in the services sector is more favorable for Ukraine's economy: the deficit is only registered with Turkey, wherefrom Ukraine imports almost 20 % of the total volume of services imported (Fig. 4).

¹⁸ Trade statistics for international business development [Electronic resource]. — Access mode: http://www.trademap.org/Bilateral_TS.aspx.

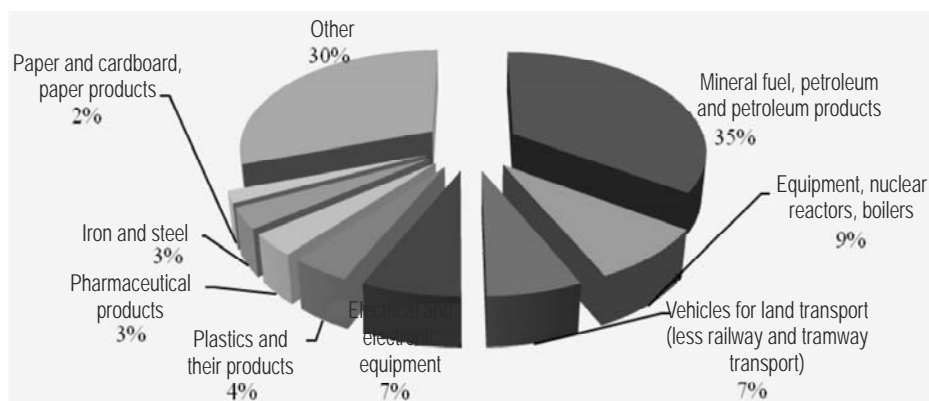


Fig. 3. Structure of Ukraine's commodity imports from the BSEC countries, 2012¹⁹

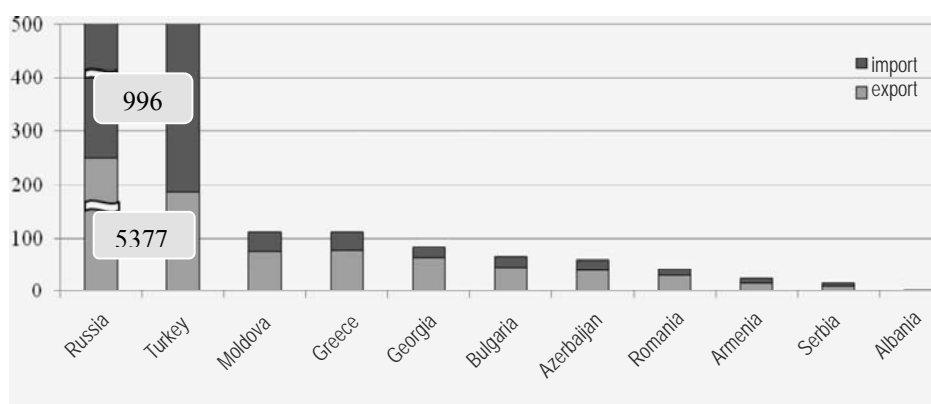


Fig. 4. Ukraine's foreign trade in services with the BSEC countries, 2012, millions of USD²⁰

The Russian Federation remains the main partner of Ukraine as regards foreign trade in services (accounting for 87 % of the total trade), while for other countries, except Turkey, this figure does not exceed about 1.5 % for each of them. Transport services account for the bulk of services exported by Ukraine (up to 80 %), while tourist services make up 7 % of the total volume of services provided.

Consequently, Ukraine's export-import activities with the BSEC member states are mainly characterized by export of raw commodities; monospecialization of imports; uneven geographical structure of imports and exports of goods and services.

¹⁹ Ibid.

²⁰ The official website of the State Statistics Committee of Ukraine [Electronic resource]. — Access mode: www.ukrstat.gov.ua.

A detailed analysis of the volume and commodity structure of Ukraine's foreign trade with the BSEC countries has revealed the following priorities of trade cooperation in the area of:

- goods — iron and steel produce (exports), energy commodities included in the list of critical imports;
- services — provision of transport and travel services.

Areas that are often designated as priorities of Ukraine's cooperation within the BSEC include power production, transport, trade and economic development, banking and finance, communications, science and technology, tourism and environmental protection²¹. Meanwhile, it is worthwhile to cite here an opinion of A. Vlasyuk who has observed that Ukraine unsatisfactorily uses its own advantages and prospects, especially at the regional level, where significant efficiency and flexibility of communication infrastructure are required²².

Indeed, according to the British Rendall Institute, Ukraine has the highest in Europe rate of transit of 3.11²³, but this potential is realized only by 60 %. Revenues received by the country from the use of transport for transit purposes only account for 6 % of the GDP, while in the Baltic countries this figure is 30 %. Sea transport is used insufficiently too, though the potential of marine transit is an advantage that not every country can boast of and not to sell it in today's competitive world is very wasteful.

Ukraine has «the greatest number of seaports among all countries of the Black and Azov Sea basins — 19 commercial seaports, 3 fishery seaports, 12 port stations and numerous terminals»²⁴. The importance of ports is associated with their role as connecting links in the transport system of the BSEC member states, hence in their economies. However, the majority of Ukrainian ports are in urgent need of reconstruction according to modern international standards. In addition, the relatively high port fees and related charges significantly hinder the development of maritime trade on Ukrainian territory. An urgent task in developing the Black Sea

²¹ G. Perepelytsia, The policy of Ukraine towards the BSEC and the Black Sea region [Xenophon paper]. International Centre for Black Sea Studies (ICBSS), Athens, Greece, 2007. — No. 2, p. 146. [Electronic resource]. — Access mode: http://mercury.ethz.ch/serviceengine/Files/ISN/103761/ichaptersection_singledocument/073a508c-e8f2-445d-8993-caf21ad55d62/en/11.pdf.

²² O.S. Vlasyuk, Ensuring economic competitiveness of the regions of Ukraine in the context of European integration / O.S. Vlasyuk // Series: Economics. Bulletin of the Lviv Commercial Academy. — 2006. — Issue 23. — pp. 3-6.

²³ T. Tkachuk, Economic cooperation in the Black Sea region exemplified by Ukraine-Greece intergovernmental relations / T. Tkachuk // Personal. — No. 5, 2007. [Electronic resource]. — Access mode: <http://personal.in.ua/article.php?id=497>.

²⁴ Yu. Makogon, The development of Ukraine's commercial sea transport at the current stage of international economic relations in the Black Sea region. / Yu. Makogon // Problems of and prospects for the development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Istanbul-Donetsk: Donetsk National University, Regional Branch of the NISS in Donetsk, 2010. — pp. 13-19, p. 13.

economic integration is the establishment of free ports and portside export-industrial areas²⁵. It is imperative to create innovative transportation projects, and in this respect the Project of Development of Multimodal Freight and Passenger Ferry Lines holds much promise and is currently before the BSEC.

Another equally important priority sector of cooperation between Ukraine and the BSEC is the power sector, which is due to the transit status of the Black Sea subregion that serves as a link for the power systems of the countries Western Europe and North Asia. In addition, members of the Organization increasingly often raise the question of technical feasibility and economic justification for the creation of a single power system within the BSEC and the formation of a suitable concept of power sector development.

For Ukraine, the most advantageous way of supplying energy to Western Europe is the GUEU White Stream (involving Georgia-Ukraine-European Union). However, it is faced with tough competition from other options including the Caspian-Turkish, Iranian-Turkish, and Black Sea-Romanian (Georgia-Romania-EU or GREU) streams, as well as the Nabucco pipeline as part of the «Southern Corridor» which will reduce Europe's dependence on Russia and Russia's relations with Ukraine²⁶.

Another beneficial but underdeveloped sector of trade cooperation between Ukraine and its neighbors is the provision of tourist and recreational services. Recreational landscapes (forested, maritime, mountain sceneries), health resources (mineral water, therapeutic mud), natural protected areas and the areas of historical and cultural significance hold considerable potential for tourism development²⁷.

The conclusions of the latest Black Sea Tourism Forum in Yalta in 2012 promoted the idea of the necessity to support the development of municipal cooperation through small joint projects which are expected to invigorate the Black Sea Economic Cooperation. The key to improving Ukraine's trade cooperation with the BSEC is upgrading its tourist facilities, improving the quality and

²⁵ Yu.G. Kozak, The role and place of Ukraine in the regional intergovernmental economic organizations: CIS, BSEC, GUAM. / Yu.G. Kozak // Problems of and prospects for development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Odessa-Donetsk: Donetsk National University, Regional Branch of the NISS in Odessa, Regional Branch of the NISS in Donetsk, 2008 — pp. 24-28, p 27.

²⁶ R. Shepherd, Romania, Bulgaria, and the EU's future // Current History. — 2007. — Vol. 106, No. 698. — March. — pp. 117-122, p. 120.

²⁷ M.G. Nikitina, Comparative analysis of development of the tourist services sector of the Black Sea countries. / M.G. Nikitina // Problems of and prospects for development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Albena-Donetsk: Donetsk National University, Regional Branch of the NISS in Donetsk, 2012. — pp. 231-237, p. 231.

expanding the range of tourist and recreational services, creating a system of information and marketing provision of tourist activities that meets the international standards, introducing tax incentives and other forms of government support.

As was mentioned already, the Organization of the Black Sea Economic Cooperation is an example of a modern model of project-sectoral integration of the economies of the countries of the region, which differ in the structure of their economies, geopolitical interests, socio-economic level of development, cultural and religious aspects of life. Despite the growing influence of these differences, the economic cooperation between the BSEC Member Countries over the past 20 years of the existence of the Organization has played a significant role in the development of national economies based on the implementation of joint projects in the transport, energy and other sectors.

Vectors and instruments for improving Ukraine's trade cooperation within the BSEC

Internal national problems of economics, politics and social services form a threat to the implementation of any integration policy of Ukraine. The global financial crisis has led to the deepening of macroeconomic and social problems, the slowing of the pace of reforms geared towards transition to market economy, and the worsening of political situation in the country, which in turn caused a decrease in the inflow of foreign investment in the economy and stagnation of production. Given the successful global experience of sectoral economic cooperation at the regional and subregional level, the most striking example of which being the Asia-Pacific Economic Cooperation, it is quite reasonable for Ukraine to implement effective integration into the international competitive space through cooperation «on a sectoral basis, especially in science and technology, energy, and food sectors»²⁸. In this context, Ukraine should implement such vectors of regional economic integration and trade cooperation which would meet the national objectives of sectoral economic development and contribute to the overcoming of crisis in production, in particular, trade, transport and tourism sectors.

The sectoral trade and economic cooperation model that was established in the BSEC is the most appropriate for Ukraine, as it is fully consistent with the trend towards arranging an «intercorporate division of labor in the global economy, where the most effective forms of activity are territorial and industrial cooperation, production and commercial associations, special economic zones

²⁸ Global competitive space [monograph] / O.G. Belorus et al, [head of a team of contributors and scientific editor O.G. Belorus]. — K.: Kyiv National Economics University, 2008. — 720 p., p. 442.

and special treatment of business activity»²⁹. Accordingly, Ukraine is faced with the relevant strategic objectives: to increase its activity at the meetings of the sectoral working groups, to define project proposals and initiate programs in the priority sectors of the economy in the context of implementing national and subregional interests. Furthermore, the sectoral approach to trade cooperation harmonizes well with the European Neighbourhood Policy (Black Sea Synergy project³⁰).

The instruments for improving trade cooperation are best presented in relation to the above-defined key priority areas of trade (commodity, transport and tourist services) and vectors that correspond to the area of implementation (macroeconomics, science and technology, finance and economics, institution renewal, infrastructure, etc.) (Table 1).

Table 1. Matrix of instruments for improving Ukraine's trade cooperation within the BSEC

Vec-tors	Trade priorities		
	Goods	Services	
		Transportation	Tourist
1	2	3	4
Macroeco-nomics	<ul style="list-style-type: none"> – Tax benefits – Subsidizing exports – Simplifying customs control for enterprises 	<ul style="list-style-type: none"> – Differentiated benefits of subsidization – Practice of accelerated depreciation – Favorable credit, insurance, taxation terms 	<ul style="list-style-type: none"> – Tax incentives and preferences for tourism business – Promoting «domestic» exports
Finance and eco-nomics	<ul style="list-style-type: none"> – Providing BSTDB loans to small and medium-sized enterprises – Promoting financial and credit instruments of the national banking system – Creating business centers 	<ul style="list-style-type: none"> – Attracting investment in transport projects with EU and BSTDB – Providing state guarantees for the protection of investments 	<ul style="list-style-type: none"> – Creating free industrial and tourist zones with simplified taxation scheme – Use of BSTDB financial instruments
Science and technology	<ul style="list-style-type: none"> – Creating online showcases for export products – Building up export potential in electronics, bio- and nanotechnology 	<ul style="list-style-type: none"> – Technical upgrading of the vehicle fleet – Modernization of gas transportation system – Implementation of the electronic equipment production program 	<ul style="list-style-type: none"> – Use of international experience in PR technologies and brand policy – Creating exclusive tourism products

²⁹ A. Moky, A regional-sectoral model of foreign economic integration: prerequisites and implementation strategy / A. Moky. — Lviv: Kooposvita, 1999. — 346 p., p. 4.

³⁰ Communication from the Commission to the Council and the European Parliament. Black Sea synergy — a new regional cooperation initiative [Electronic resource]. — Access mode: http://ec.europa.eu/world/enp/pdf/com07_160_en.pdf.

Vec-tors	Trade priorities		
	Goods	Services	
		Transportation	Tourist
1	2	3	4
Institution renewal	<ul style="list-style-type: none"> – Intensifying activities in institutions – Concluding an agreement on the free movement of goods 	<ul style="list-style-type: none"> – More active participation in NGOs: BRASS, BASPA, BINSА and BSEC-URTA 	<ul style="list-style-type: none"> – Organizing tourist and recreational clusters with countries
Infrastructure	<ul style="list-style-type: none"> – Information support to businesses – Establishing centers to promote cooperation – Involving chambers of commerce 	<ul style="list-style-type: none"> – Building new oil and gas terminals – Developing ferry service – Involvement in the transportation project with the use of special BSEC permissions 	<ul style="list-style-type: none"> – Modernization of tourist infrastructure – Organizing exhibitions of leading tourist and recreational agencies
Society and culture	<ul style="list-style-type: none"> – Promoting cooperation through conferences – More active participation in the BSEC Business Council 	<ul style="list-style-type: none"> – More effective membership of Ukrainian cities in the International Black Sea Club 	<ul style="list-style-type: none"> – Conducting promotional tours – Promotion of resorts through the media
Politics and law	<ul style="list-style-type: none"> – Harmonizing legislation on standardization and certification – Introducing common rules of origin – Harmonizing customs regulations 	<ul style="list-style-type: none"> – Harmonization of the legal framework for the provision of transport and forwarding services – Giving Ukrainian ports more leeway in tariff setting 	<ul style="list-style-type: none"> – Improving the legal framework for tourism and recreation; – Avoiding subordination of tourist destinations to different administrations

The macroeconomic vector covers actions aimed at ensuring sustainable GDP growth, controlling inflation, creating conditions for reduction of unemployment, forming favorable environment for the development of foreign economic activity. Leverage over the development of Ukraine's foreign trade in this area should be viewed as the most substantial since economic incentives for setting up and carrying out foreign economic activity tend to become decisive.

Among the relevant effective instruments for promoting trade cooperation with the BSEC countries, the following deserve mentioning: tax breaks, simplification of customs clearance, export subsidies, favorable credit conditions and so on. In this respect, it should be noted that the tax system of Ukraine, which currently includes 135 types of taxes³¹ that form 56 % of the total tax rate in relation to commercial profits³², needs urgent reform. Therefore,

³¹ Tax payments (number) [Electronic resource]. — Access mode: http://api.worldbank.org/datafiles/IC.TAX.PAYM_Indicator_MetaData_en_EXCEL.xls.

³² Total tax rate (% of commercial profits) [Electronic resource]. — Access mode: http://api.worldbank.org/datafiles/IC.TAX.TOTL.CP.ZS_Indicator_MetaData_en_EXCEL.xls.

it is important, in the view of the authors, to carry out a measured tax reform in the direction of a differentiated approach to reducing the tax burden and providing tax benefits.

One of the key vectors of improving trade cooperation is science and technology. It is necessary to actively develop and implement both national and subregional innovation programs and projects based on sound scientific research results that contribute to the effective transition to an innovative model of development of Ukraine's economy. According to experts, the industrial and technological policy, the two main factors of which are the investment policy and technology, will facilitate the attainment of the national interests in an optimal way³³. In the context of Ukraine's sub-regionalization such a policy should cover the experience in using PR-technologies and brand policy, actions to promote the development of e-commerce, build-up of export potential in the fields of electronics, bio- and nanotechnology, pharmaceuticals, modernization and construction of new terminals and enterprises for receiving, storing and processing of energy resources on the Black Sea shore, scientific developments and implementation of non-conventional sources of energy, technical reconstruction of iron and steel plants under current technological standards, the development of electronics for the national economy.

The vector of finance and economics primarily concerns enhancement of trade through attracting foreign investment in the facilities of market infrastructure. Indeed, the overseas transportation sector requires significant attention on the part of the state; in particular, projects on modernization of Ukrainian trading ports need the involvement of both domestic and foreign financial resources. In fact, most of the projects are neither considered nor implemented due to lack of funds. Hence, in the context of development of subregional processes, Ukraine should more actively participate in the Black Sea Trade and Development Bank (BSTDB).

The BSTDB trade financing instruments are provided for a period from 1 to 5 years via intermediaries for operations in excess of 2 million SDRs. It should be noted that for both Ukraine and other BSEC countries, cooperation with the Bank boils down to provision of loans to other financial institutions of the country. As of 2012, 23 projects were funded in Ukraine with the participation of the BSTDB, including corporate loans to Galnaftogas, Alpha-Nafta, Chornomornaftagaz, the Industrial Union of Donbass, Stirol Concern, a loan to the Pivdenny Bank to finance small and medium enterprises, financing of Ukrainian railways modernization

³³ Ya.M. Stolyarchuk, *Global asymmetry of economic development* [monograph] / Ya.M. Stolyarchuk. — K.: Kyiv National Economics University, 2009. — 302 p., p. 7.

projects, updating of River-Sea vessels for the Vernal Group, further deployment of mobile telecommunications GSM network for Astelit, and financing of the Trans-Balkan Gas Pipeline Project³⁴. For a more active engagement of the BSTDB, local authorities should be provided with full information on project funding opportunities offered by the Bank.

The establishment of a separate state agency whose activities would be aimed at ensuring close ties between national and subregional levels of trade relations, as is the case in Russia, should become a key instrument of the institutional vector of improving Ukraine's trade cooperation within the BSEC. At present, development of economic cooperation with the countries of the Black Sea subregion is mainly entrusted to the Fourth Territorial Directorate of the Ministry of Foreign Affairs of Ukraine, which includes the departments of Central and Eastern Europe, South Eastern Europe, Turkey, and the South Caucasus. In addition, it is necessary to actively involve local governments, academic and business communities in the processes of project study and substantiation. It should also be noted that the six-month presidency of Ukraine in the BSEC from 1 January 2013 necessitates even greater its involvement in the Organization, initiation of projects and programs, including via representatives of Ukrainian experts taking part in the activities of the Project Development Fund, which operates since 2002.

The infrastructure vector of improvement of Ukraine's trade cooperation covering the formation of market infrastructure in the subregion, which is conducive to business development, is of critical importance. This includes the provision of information to enterprises through a network of business and data centers and chambers of commerce; in particular, it is necessary to ensure free access to information on the economic and legal principles of conducting business in the BSEC and the institutional environment for foreign businesses in the BSEC countries. It is expedient for Ukraine to be more deeply involved in the work of the BSEC Business Council which is engaged in developing and implementing specific projects of business cooperation; establishing direct ties and information exchange; lobbying interests of the business community in the BSEC structures; providing information and advisory services and assistance in finding partners.

The implementation of the sociocultural vector of improving Ukraine's trade cooperation with the BSEC is expected to promote positive social perception of integration into the BSEC. In this respect, it is desirable to hold joint cultural activities, ex-

³⁴ Projects Financed by The Black Sea Trade and Development Bank [Electronic resource]. — Access mode: <http://www.bstdb.org/project-center/projects-financed>.

change experiences, including through the organization of subregional conferences in various spheres of life. It is vital to intensify the participation of Ukrainian port cities in the International Black Sea Club – a non-governmental organization that promotes business partnership between 30 cities of the BSEC countries to foster social and economic cooperation. Ukraine is represented in this organization by the greatest number of cities (Illichivsk, Mariupol, Mykolayiv, Odessa, Sevastopol, Kherson, Feodosiya, Yuzhnyy, and Yalta). The organization provides opportunities to receive commercial information (via a database, Information Office, periodicals), distance education under the IBSC-Lodes project, and participate in conferences and exhibitions. In so doing, the range of areas of cooperation is now being extended from commercial and economic to cultural aspects of interaction.

The political and legal vector of trade cooperation improvement is related to the development and/or formulation of legislation on foreign economic policy, in particular, in the areas of trade, investment, transportation, tourism, movement of labor. It is imperative to join efforts in ensuring national political stability and supporting the democratic foundations of the country. The state planning, programming and forecasting at the national and supranational levels should be the key patterns of implementation of current public policy³⁵. Ukraine will clearly need to combine national efforts with subregional opportunities in going through this process.

Thus, in the context of development of the Black Sea Economic Cooperation, Ukraine is faced with very important tasks: overcoming the existing macroeconomic problems, establishing political stability, promoting investment and transport cooperation with the BSEC member states, ensuring foreign trade legislation adequate to the goals of the subregional organization, upgrading infrastructure, transition to innovative development of the national production sector. The objectives stated by the BSEC such as creating a regime of free movement of goods and services, establishing credit and financial cooperation, and development of business infrastructure, sectoral systems of reproduction and transportation services³⁶

³⁵ A.A. Tchukhno [Works]: In 3 vol. / National Academy of Sciences of Ukraine, T. Shevchenko Kyiv National University, Scientific and Research Financial Institute under the Ministry of Finance of Ukraine. — K., 2006. — Vol. 2: Information postindustrial economy: theory and practice. — 2006. — 512 p., p. 65.

³⁶ V.Ye. Novytskyy, Black Sea Economic Cooperation in the system of subregional priorities of Ukraine / V.Ye. Novytskyy, V.A. Khomanets // Problems of and prospects for development of cooperation between the countries of South-Eastern Europe within the framework of the Black Sea Economic Cooperation and GUAM. — Proceedings. — Odessa-Donetsk: Donetsk National University, Regional Branch of the NISS in Odessa, Regional Branch of the NISS in Donetsk, 2008 — pp. 851-853, p. 851.

seamlessly meet the objectives of national self-assertion of Ukraine. According to the official sources³⁷, the goal of the Ukrainian presidency in the Organization is to renew activity aimed at creating a free trade area by removing non-physical barriers to mutual trade, investment protection, harmonization of customs and trade regime in line with the WTO requirements, which fully complies with the implementation of economic interests of Ukraine in the Black Sea Economic Cooperation.

Conclusions

The need to timely respond to global challenges and to adequately respond to organizational and economic transformations of regional economic integration within the European Union and the pro-Russian intergovernmental economic associations (Commonwealth of Independent States, Eurasian Economic Community, Single Economic Space) makes Ukraine look for alternative optimal vectors of trade and economic cooperation. The most successful in this context seems to be the Black Sea vector which is implemented by the countries within the BSEC. The trade and economic priorities of Ukraine's cooperation with the countries of the Black Sea subregion are defined by the following:

- Promotion of national economic interests in increasing exports and entering new markets for goods and services, geographical diversification of energy imports, development of the tourist and recreational complex of Ukraine, increasing its transit status, etc.;

- Ensuring of centrifugal strategic orientation of regional trade and economic cooperation between the two integration «centers of gravity» – the European Union and Russia;

- Continued adoption of successful international experience in adhering to the project-sectoral pattern of economic cooperation between the countries, which forms the adequate conditions for effective sectoral development of the national economy in the areas of merchandise trade, transportation and travel services and others.

Further progress in Ukraine's integration relations with the BSEC necessitates the participation of the state in the comprehensive formation of ways of improving the country's trade and economic cooperation. Accordingly, the instruments for their implementation shall cover the following areas: macroeconomics, finance and economics, science and technology, institution renewal, politics and law, infrastructure, society and culture. For Ukraine

³⁷ Statement by Ukraine's Representative at the Coordination Meeting of the BSEC Chairmanship-in-Office, the Committee of Senior Officials, BSEC Related Bodies and BSEC PERMIS. Istanbul, 24 January 2013. [Electronic resource]. — Access mode: <http://www.blackseanews.net/read/55558>.

not to be left on the side road of the global economic development, the country, of course, must deal with many other challenges associated with the formation of favorable market conditions and coordination of regulatory activity. The successful implementation of most of these state tasks must be enhanced by effective membership in the BSEC in terms of utmost use of all types of resources (financial, intellectual, institutional, infrastructural, etc.). Thus, it seems to be expedient that further research be carried out with a view to developing and implementing the strategic directions of improving the functioning of the Organization proper and subregional economic activities of its members.

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