

**TRENDS AND FORECAST OF UKRAINIAN FOREIGN TRADE RELATIONS****Diana Kyredon**

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**Summary**

The paper is devoted to identifying key challenges for the Ukrainian economy related to the need to intensify foreign trade. The aim of this paper is to identify trends in foreign trade relations of Ukraine. The dynamics and main structural shifts in Ukraine's foreign trade are analyzed. The modern stage of development of world economic relations dynamism, liberalization, diversification of forms and types of foreign economic activity are characterized. In 2019-2021, in the frames of the processes of reforming Ukraine's economy, increasing the level of competitiveness and investment attractiveness, Ukraine is projected to achieve a higher level of financial globalization compared to previous years, which will have a positive impact on the balance of payments. The objective nature of asymmetries of Ukraine's foreign trade interests is revealed. Peculiarities and priority directions of development of foreign trade interests of Ukraine are determined. Methods of dialectical logic and general system principles of conducting scientific researches, fundamental provisions of economic theory, laws of functioning of market economy are used for the decision of the set tasks in the paper.

**Keywords:** foreign trade relations, world economy, export, balance of payments, economic interests, foreign markets, economic growth.

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**1. Introduction**

Trends in world trade relations determine the following chains of modification: the national economy is increasingly integrated into the internationalized reproductive links, becoming part of them and influencing the whole set of elements of the chain. The internationalization of the economy fundamentally changes the political map of the world, establishing new economic borders with their own national interests, areas of strategic goals and the scheme of integration phenomena.

International trade is an important factor in improving the efficiency of resource use, as well as a source of foreign exchange earnings to the economy. In the modern world economy, international economic relations in general, and international trade in particular, are one of the most important factors in the further development of the world economy (Makin, 2009). Successful realization of Ukraine's economic interests in foreign markets requires an understanding of the main processes and patterns of its development, assessment of its state and macroeconomic changes that are taking place in the world economic space and in the leading regions of the world.

The purpose of paper is to identify trends in foreign trade relations of Ukraine, which are important for economic growth of the national economy.

The structure and dynamics of foreign trade have been studied in the works of many scientists, including the works of A. Makin, A. Mazaraki, T. Melnyk, V. Heits, M. Lyzun, O. Kiselyova, I. Lishchynskyy, R. Bodnar, V. Eleika, B. Didkovska, and others. The authors of scientific works analysed the current state, identify trends in the development of foreign trade relations of Ukraine. However, despite numerous publications, the question of Ukraine's further participation in international trade remains open.

## 2. Analysis of Ukraine's foreign trade relations

Effective participation of Ukraine in international trade is one of the most important factors in ensuring economic growth. In 2019–2021 foreign trade relations of Ukraine will be developed under the influence of sustainable development of the world economy that will be characterized mainly by the processes of transformation of production with a focus on high technologies and innovations, diversification of economic ties, dynamics of world prices for both export and imported goods.

In the case of Ukraine's economy, it is expected not only to expand export activities and increase the contribution of external demand to the overall growth, but also to change gradually the commodity structure of exports in the direction of increasing the share of high-tech products (*Lyzun, Lishchynskyy, 2013*). Ukraine's transition to higher value-added exports, among other things, will be facilitated by further implementation of state policy priorities identified, in particular, Ukraine's Export Strategy: “Roadmap for Strategic Trade Development for 2017-2021”, which provides for a gradual increase in Ukraine's export competitiveness, intensification of investment and innovation processes, including through the activities of the Export Credit Agency (Resolution of the Cabinet of Ministers of Ukraine dated 07.02.2018 № 65 “The establishment of the Export Credit Agency”). The Export Credit Agency will insure, reinsure and provide guarantees under contracts to promote the development of export (*Kaliuzhna, 2015:83*). The agency will also participate in the implementation of partial interest rate compensation programs on export credits and provide consultations for exporters (Fig. 1).

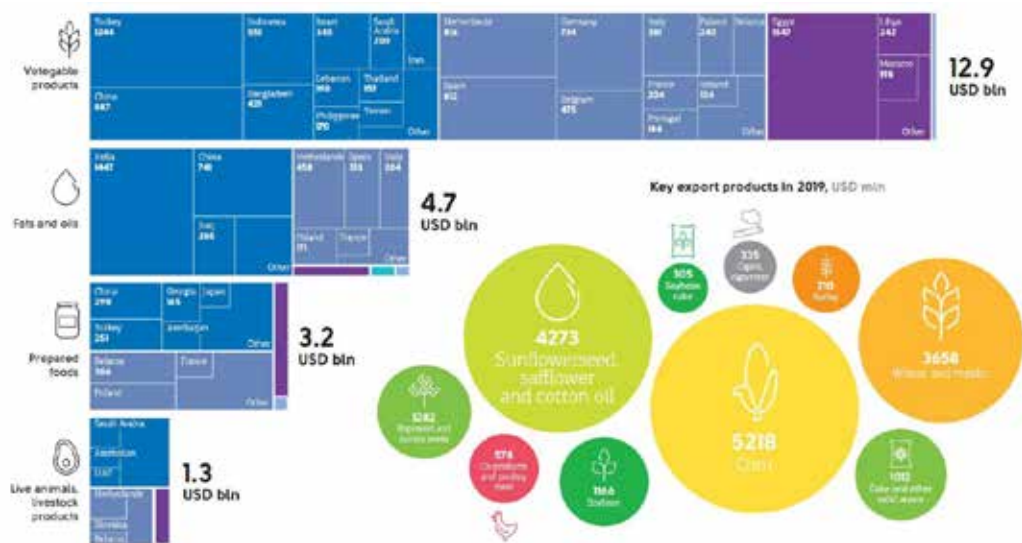


**Fig. 1. Exports of Ukraine, USD Million**

Source: State Statistics Service of Ukraine

However, taking into account a certain period of time for the introduction of new technologies and bringing Ukrainian exports to a new technological level, no significant changes in the commodity structure of exports are forecast in the forecast period. A substantial part of domestic exports will still be raw materials, in particular agricultural products, the volumes of which will increase. The main export agricultural commodity will remain grain crops in the conditions of favourable price conditions and projected growth of production volumes, as well as the effect of economic and mutual trade sanctions between the Russian Federation and European countries, which will create certain competitive advantages for Ukraine.

In the context of growing external demand, the volume of foreign trade in metallurgical products will continue to increase due to the increase in physical volumes of exports, given the gradual optimization of China's metallurgical complex against a less favourable price situation in the world market in the medium term. In turn, the increase in exports of mineral products will take place in the conditions of suspension of the decline and resumption of positive dynamics of world iron ore prices at the end of the forecast period (Fig. 2).



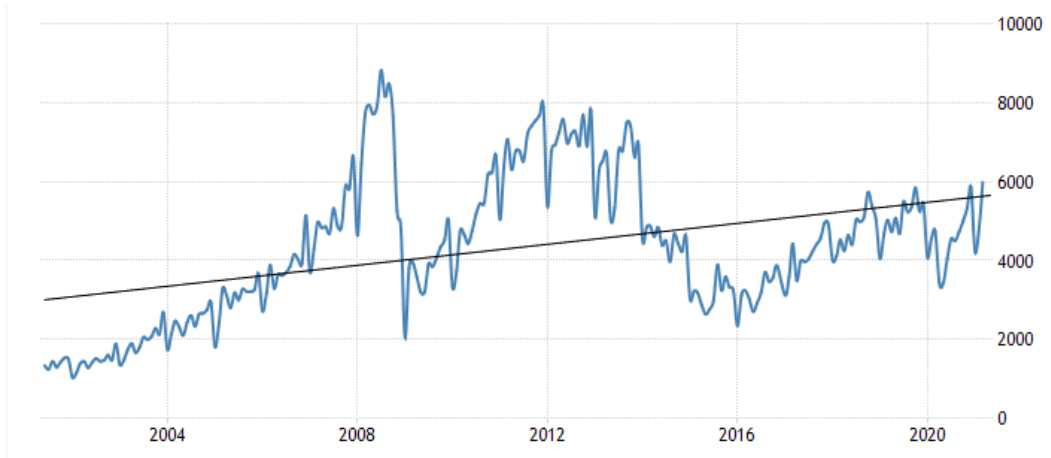
**Fig. 2. Export of Ukrainian agricultural goods in 2020, USD Million**

At the same time, the implementation of the Government's measures to strengthen the position of domestic exporters in world markets, increase the competitiveness of domestic products by intensifying investment and innovation processes, including modernization of production and development and production of new products, will promote non-raw materials, in particular mechanical engineering products.

In general, the share of basic low-tech goods on average in 2019-2021 is projected at about 46 percent of total exports of goods compared to 43 percent on average in 2015-2017, and high- and medium-high-tech goods – at 19 percent compared to 18 percent.

Further increase in incomes in the country and steady growth of domestic consumer demand, expansion of production capacity in the context of intensification of modernization processes, including imports of equipment, rising raw material prices will be the main factors of

growing imports in moderate devaluation processes. The restraint on imports will have a slight decrease compared to 2018 in the level of natural gas prices and the implementation of energy saving measures and increase the share of renewable energy consumption (Fig. 3).



**Fig. 3. Import in Ukraine, USD Million**

Source: State Statistics Service of Ukraine

Within the framework of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand (hereinafter – the Agreement with the European Union), trade turnover will continue to increase. Further cooperation with the countries of the European Union will also increase imports from these countries, which will mainly supply mechanical engineering products, high-tech equipment and chemical products (*Savelyev, Kuryliak, Lyzun, Lishchynskyy, 2017*).

In the medium term, a further reduction in trade with the Russian Federation is projected. At the same time, we can expect the intensification of trade relations with Africa and Asia, including through the conclusion of a free trade agreement with Israel and Turkey, in terms of expanding and diversifying Ukraine's foreign economic relations, in the framework of Ukraine's Export Strategy. Foreign economic relations with India, China, Egypt and other countries will deepen.

Transport services will continue to account for a significant share of exports of services, the volume of which will gradually increase, in particular, in the context of Ukraine's integration into the European transport space.

Further spread of modern telecommunication developments, innovative products and introduction of the newest technologies will positively influence dynamics of services which are connected with computer and information technologies, scientific and business services. The competitiveness of the national tourism industry will increase. All this is a sign of increasing competitiveness in the latest services.

In general, the growth of exports of goods and services in 2019-2021 was projected at an average of 8.7 percent annually (in 2019 – by 8.3 percent), which is slightly higher than previously forecast (5.7 percent) due to the improvement of foreign economic conditions on average per year in 2018-2020). However, COVID-19 pandemic conditions had a negative influence on economic situation.

However, even with such dynamics, exports of goods and services in 2021 will not reach its pre-crisis level and will be 94.8 percent of the 2013 level.

The growth rate of imports of goods and services in the medium term will be formed at almost the same level as exports – 8.5 percent (in 2019 – 9.1 percent). Higher rates compared to the previous forecast (6.4 percent on average for the year 2018-2020) are due, in particular, to changes in the statistical calculation base due to the National Bank of Ukraine in early 2018 reviewing data on private remittances in 2015-2017 from using mirror statistics of individual countries. However, such dynamics will not ensure the achievement of the pre-crisis level of imports of goods and services in 2021 (91.6 percent of the 2013 level).

In the medium term, the impact of the growth factor of remittances in the conditions of high activity of migrant workers on the formation of the balance of primary incomes of Ukraine's balance of payments is projected to continue. However, in the conditions of the expected attenuation of the intensity of post-COVID migration processes, the dynamics of the respective revenues will slow down during the forecast period.

### **3. Balance of payments as indicator of foreign sector development in Ukraine**

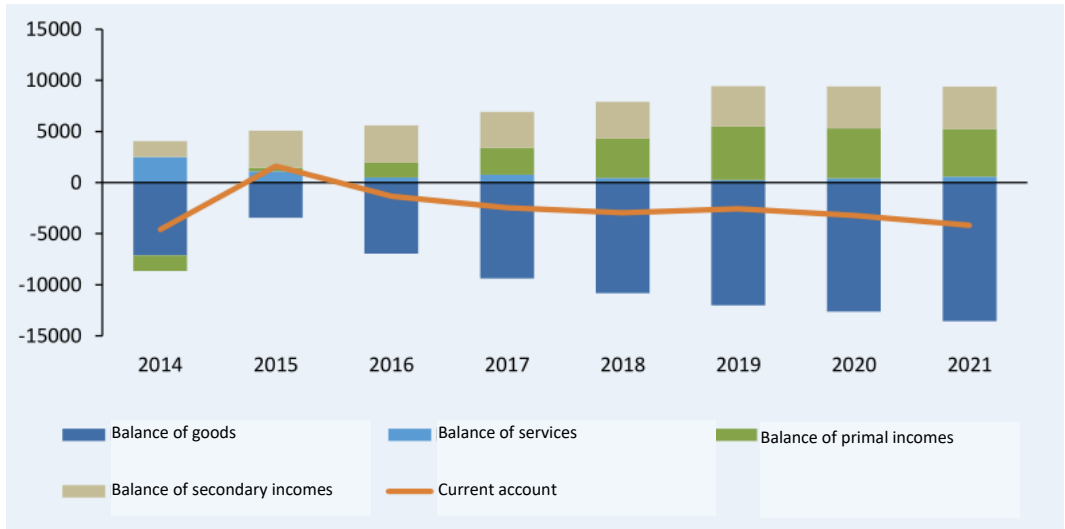
At the same time, during the forecast period, capital outflows will continue to be observed due to the payment of dividends and deductions from investment income, interest on long-term portfolio investments, including interest payments on IMF loans and public debt. However, this will not prevent the formation of the balance of “primary income” at a positive level.

As in previous years, and during 2019-2021, a positive balance is also expected under the item “secondary income”, which will be provided mainly by transfers of financial and non-financial corporations, as well as remittances from non-resident workers (working abroad for more than a year).

Simultaneously, “secondary revenues” will also be generated through international cooperation operations, in particular by attracting funds from the general government sector in the form of technical assistance in the framework of continued cooperation with international financial organizations and partner countries. The latter includes financing to restore the infrastructure facilities of Donetsk and Luhansk regions destroyed during the hostilities.

However, the intensity of these processes will still not allow in the medium term to generate a current account surplus, the volume of which will still be largely determined by the volume of a significant negative balance of goods and services. Under these conditions, the current account deficit during the forecast period will increase from “minus” 2.6 billion US dollars in 2019 to “minus” 4.2 billion US dollars in 2021 (Fig. 4).

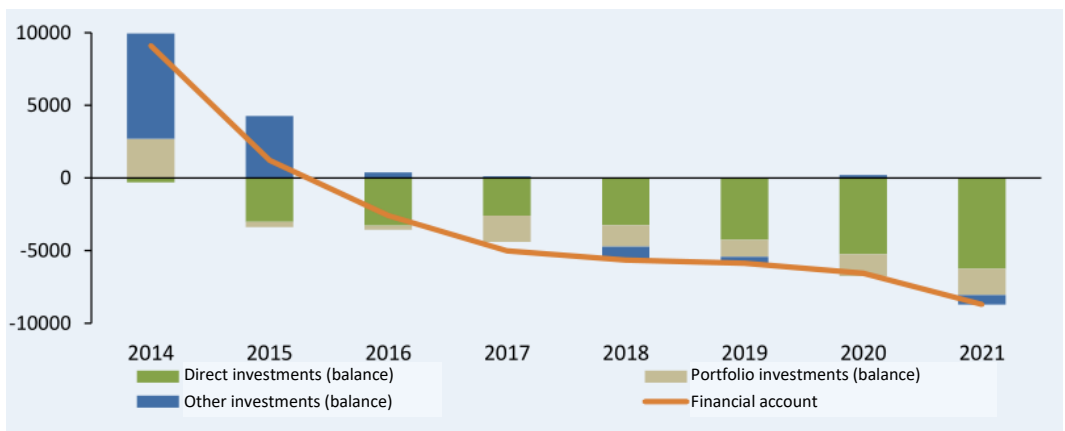
In 2019-2021, in the frames of the processes of reforming Ukraine's economy, increasing the level of competitiveness and investment attractiveness, Ukraine is projected to achieve a higher level of financial globalization compared to previous years, which will have a positive impact on the balance of payments. Investment inflows into the banking and real sectors of the economy will increase due to greater attractiveness of investments in assets and currency by investors, intensification of privatization processes with subsequent implementation of large-scale investment projects. There will also be a need to expand scientific developments in the field of energy and resource-saving technologies, space and aircraft construction, military-industrial complex, which requires new investments (*Lishchynskyy, 2019*).



**Fig. 4. Ukraine's Current Account of BP, USD Million**

Source: NBU

At the same time, a decrease in the volume of cash currency outside banks is projected in the conditions of a relatively stable situation in the foreign exchange market and a steady increase in consumer demand, which will affect the state of investment and debt capital. Previously borrowed capital will be repaid, but this will not affect both long-term and short-term debt capital. Sustainable economic development within the country will ensure the attraction of cheap financial instruments and free capital of other countries (*Kulytskyi, 2018*). In 2019-2021, the net growth of foreign direct investment is projected at 5.25 billion US dollars annually (4–4.5 billion US dollars in 2019).



**Fig. 5. Ukraine's Financial account of BP, USD Million**

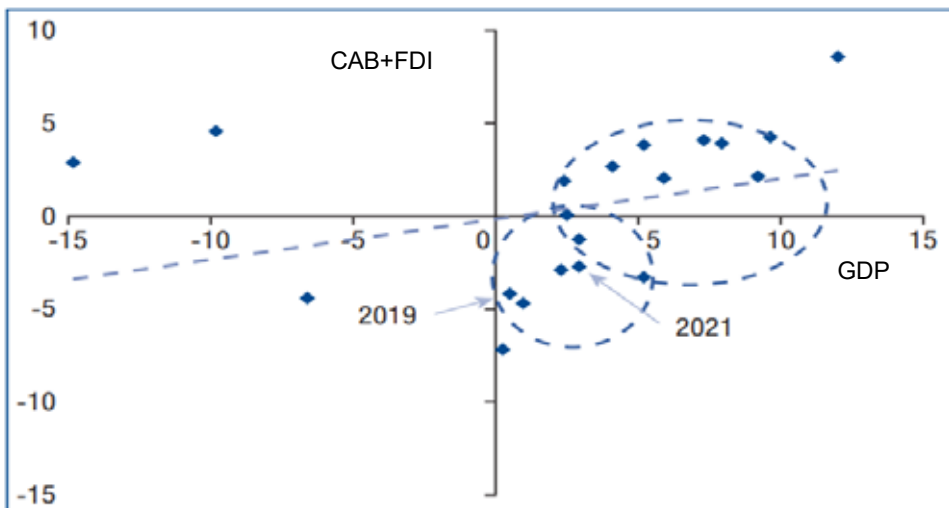
Source: NBU

Further implementation of new national bond placements by the Government of Ukraine is expected in the conditions of continued cooperation with the IMF, the World Bank and obtaining loans from the European Union (*P'iankova, and Ralko, 2016*). Revenues from the financial account will exceed the outflow from the current account, which will allow to increase international reserves to almost the level of about 32.2 billion US dollars by the end of 2021, which will cover 4 months of expected imports.

However, the balance of payments may be associated with risks that have arisen as a result of positive trends in recent years. This refers to the state of foreign economic relations with the EU. Ukraine, although insignificant, still enters new trade niches in Europe. Although Ukraine's trade balance with the EU remains in deficit, Ukraine's participation in the logistics and transport networks of Central and Eastern Europe should contribute to its (deficit) improvement.

Meanwhile, we will consider two more macroeconomic observations on the relationship of the most important macroeconomic indicators of Ukraine in the foreign economic sphere (with the component of FDI).

In the vast majority of cases, real GDP growth was accompanied by a positive current account balance and FDI inflows. Moreover, a significant increase in the “necessary” condition was a positive value of this amount.



**Fig. 6. Growth of real gross domestic product, as well as current account and foreign direct investment 2000-2021**

There is an inverse (albeit weak) relationship between the amount of FDI and FDI and the amount of total external debt, which confirms the “normal” position that in the event of a deterioration in the balance of payments there is an increase in external debt (*Lyzun, 2017*). Thus, the increase in foreign direct investment will be an important factor in improving Ukraine's external debt (more on this).

Ensuring a high deficit of foreign trade in conditions of low inflow of foreign resources, including FDI means that Ukraine will have to actively use its own foreign exchange reserves, both for current payments and to meet external debt requirements (primarily public debt) (*Heits, Mazaraki, 2008*). It should be recalled that in the pre-crisis period, Ukraine had

virtually no problems with its external debt obligations – the level of reserves significantly exceeded the total debt of the government and the NBU. The situation has deteriorated sharply since 2012, and today only the most current external payments can be covered (and only partially) by reserves.

For 2021, the more probable scenario for the development of the situation in the social sphere, is the pessimistic scenario, this linked both to the prolonged negative effect from the pandemic's continuation and to the approaches of representatives of the current authorities to social policy. There are almost no factors capable of influencing the situation in a positive way.

#### 4. Conclusions

1. Ukraine's foreign trade relations in 2019-2021 will be formed under the influence of sustainable development of the world economy, which will be mainly characterized by the processes of transformation of production into production of high technologies and innovations, diversification of economic ties in deepening integration foreign trade processes, dynamics of world prices for both export and imported goods.

2. In view of this, it is envisaged not only to expand export activities and increase the contribution of external demand to the overall growth of Ukraine's economy, but also a gradual change in the commodity structure of exports in the direction of increasing the share of high-tech products.

3. Ukraine's transition to the export of goods with higher added value, in particular, will contribute to the further implementation of public policy priorities identified, in particular the Export Strategy of Ukraine: Roadmap for Strategic Trade Development for 2017-2021, which provides for a gradual increase in export competitiveness Ukraine due to the intensification of investment and innovation processes, including through the activities of the Export Credit Agency.

4. In the medium term, the influence of the factor of growth of remittances in the conditions of high activity of labour migrants on the formation of the balance of primary incomes of the balance of payments of Ukraine is projected. However, in the conditions of the expected attenuation of the intensity of migration processes, the dynamics of the respective revenues will slow down during the forecast period.

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