STRUCTURAL IMBALANCES IN UKRAINE’S FOREIGN TRADE AND WAYS TO OVERCOME THEM

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Foreign trade plays an important role in a country’s economic development as it encourages competition, limits the role of monopolies, and encourages businesses to enhance the quality of export-oriented products. It is particularly essential for Ukraine, with its highly open economy, to maintain the optimal structural balance of the foreign trade.

Imperfect structure of Ukraine’s economy, its deindustrialization, and low competitiveness of domestic enterprises are among the reasons why Ukraine is perceived by the global community as a country that is able to produce and supply the global market with primarily commoditized products that have low added value. Furthermore, since raw materials, products with low value-added component, dominate in the exports structure while the majority of imported products tend to be finished goods for retail consumption with high value-added component, it is challenging to achieve a balanced foreign trade, as export sales are not sufficient to offset the higher costs of imports.

The only way to overcome such an imbalance is for Ukraine to change its focus from exporting raw materials to exporting products with high value-added component that are competitive in the global markets, while at the same time reducing imports of goods that can be produced domestically.

Ukraine has the potential to increase domestic production of those goods that are currently being imported. Ukraine has unique natural resources, significant scientific and technical expertise, and highly qualified workforce. Therefore, import substitution should become a near-term priority, as it will allow not only enhancing the foreign trade structure and preserving foreign currency reserves but also creating new jobs, reducing domestic unemployment levels, and ultimately accelerating economic growth. The potential for import substitution exists in almost all the industries. But for import substitution to have maximum impact and subsequently drive higher domestic production for exports to the global markets, it is imperative that import substitution occurs within a broader active industrial policy, involves modernizing current production facilities based on innovative practices, and is accompanied by creating favourable conditions for domestic manufacturers. It is also important to correctly define priorities for import substitution and introduce an appropriate regulatory framework that would contribute to the stated objectives’ achieving.