

# Globalisation Determinants of Export-Led Development of Ukrainian Agricultural Sector\*

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**ABSTRACT.** This article describes globalisation preconditions for export in the agricultural sector of Ukraine. The summarised results of the previous research highlight the essential characteristics of the export-led activity concept, establish the current trends, factor conditions and the impact of globalisation on the development of agricultural exports. The article also shows the dynamics and peculiarities of goods and geographical structure of agrarian exports. The areas and causes of Ukraine's vulnerability in the global agro-food market have been established. The work also deals with the directions of export-led activity development in the context of economic globalisation.

**KEYWORDS:** export-led activity, export potential, global economic environment, competitive products, agricultural sector.

## Introduction

The global transformation of the world economy has a significant effect on the development of the agricultural sector of Ukraine in the 21st century. The perspectives and need for increased exports of agro-food products are caused by, firstly, the global demographics and food security challenges, and, secondly, the need for capitalisation of Ukrainian agricultural businesses. Over the recent years, foreign trade activities of the agricultural sector have shown surplus and increased rates of international trade, and later, provided that sound development strategy is implemented, export orientation can bring Ukraine a sustainable competitive position in international markets. Therefore, given the dynamics of the environment, there is a need for studying the newest factors, forms, conditions and parameters of export-led development of businesses to create the priority areas and mechanisms for efficient operation of the agricultural sector in the context of globalisation.

The establishment of the global development model and its impact on the national economy industries have been studied by a number of renowned national scientists such as O. Bilorus<sup>2</sup>,

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\*This article was translated from its original in Ukrainian

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<sup>2</sup> *Bilorus O. H.* The Economic System of Globalisation: Monograph/O. H. Bilrous. — Kyiv: KNEU Publishing, 2003. — P. 360 [In Ukrainian].

V. Vlasov<sup>3</sup>, B. Heyets<sup>4</sup>, D. Lukianenko<sup>5</sup>, P. Sabluk<sup>6</sup>, O. Shvydanenko<sup>7</sup>, O. Yatsenko<sup>8</sup>. Fundamental theoretical and empirical research on the role of exports in economic growth of the agricultural sector, issues of international food trade and competitive capacity building have been studied in the works of S. Kvasha<sup>9</sup>, S. Maistro<sup>10</sup>, B. Supikhanov<sup>11</sup>, Yu. Lopatinskyi<sup>12</sup>, O. Shubravska<sup>13</sup>. However, the compatibility of forms, methods and directions of export-led activity in agricultural production with requirements of the current stage of social and economic transformation, that is being actualised by economic globalisation, are still to be researched. For this reason, *the aim of the study* is to establish the current state and theoretical and methodological basis of conditions and directions of export-led activities of agricultural sector in the context of globalisation of economic environment. *The object of the study* is the process of formation, existence and development of export activities in agricultural sector.

### Theoretical Platform of Export-Led Development of Agricultural Sector

The methodological basis for identifying the preconditions of export-led activities in agricultural sector is to establish the significant characteristics of the 'export-led activity' concept. A

<sup>3</sup> Vlasov V. I. Globalistics: History and Theory: Monograph [in 2 volumes ]/V. I. Vlasov. — Vinnytsya: Nilan Ltd., 2012. — P. 570 [In Ukrainian].

<sup>4</sup> The Priorities for National Economic Development in the Context of Globalisation Challenges: Monograph: int 2 parts — Part 1/ed. V. M. Heyets, A. A. Mazaraki. — Kyiv: Publishing House of the Kyiv National University of Trade and Economics, 2008. — P. 389 [In Ukrainian].

<sup>5</sup> Lukianenko D. H. The Economic Development Strategies in the Context of Globalisation: Monograph/ed. By Professor D. H. Lukianenko, Doctor of Science (Economics). — Kyiv: KNEU Publishing, 2001. — P. 538 [In Ukrainian].

<sup>6</sup> Sabluk P. T. Globalisation and Food Supplies/P. T. Sabluk, O. H. Bilorus, V. I. Vlasov. — Kyiv: Publishing House of the Institute of Agrarian Economics, 2008. — P. 632 [In Ukrainian].

<sup>7</sup> Shvydanenko O. A. The Global Competitiveness: Theoretical and Applied Aspects: Monograph/O. A. Shvydanenko. — Kyiv: KNEU Publishing, 2007. — P. 312 [In Ukrainian].

<sup>8</sup> Yatsenko O. M. The Globalisation Determinants of Commodity Market Development/O. M. Yatsenko// The International Economic Policy. — No. 2(19). — 2014. — P. 66 — 100 [In Ukrainian].

<sup>9</sup> Kvasha S. M. The Export Potential of Agribusiness under Formation of a Free Trade Area with the EU/S. M. Kvasha//The Scientific Journal of the National University of Bioresources and Environmental Sciences of Ukraine. — No.169. — 2012. — P. 97 — 102 [In Russian].

<sup>10</sup> Maistro S. V. The National Agricultural Market in the Context of Globalisation: State Regulation Mechanism: Monograph/S. V. Maistro. — Kharkiv: MAGISTR Publishing House of the Kharkiv Regional Institute of Public Administration, 2009. — P. 240 [In Ukrainian].

<sup>11</sup> Supikhanov B. K. The Development of Agro-Food Markets: Monograph/B. K. Supikhanov. — Kyiv: Publishing House of the Institute of Agricultural Economics, 2009. — P. 530 [In Ukrainian].

<sup>12</sup> Lopatinskyi Yu. F. The Effects of Globalisation on the Development of Ukrainian Agricultural Sector/Yu. F. Lopatinskyi//The Innovative Economy. — No.3(40). — 2013 [In Ukrainian].

<sup>13</sup> Shubravska O. V. The External Driver of Sustainable National Agriculture Development/O. V. Shubravska//The Economics and Forecasting. — 2006. — No. 2. — P. 36 — 45 [In Ukrainian].

contemporary dictionary of economics defines export as sending across national frontiers goods that were sold to foreign buyers, or for the purpose of selling in foreign markets, or for processing in other country<sup>14</sup>. P. Samuelson and W. Nordhaus focusing on implementation of production processes, not just sales and export, defined export as goods and services produced domestically and sold abroad. Export covers goods and services<sup>15</sup>. As to the meaning of the concept in legal terms, the International Trade Act of Ukraine defines export of goods as selling goods by Ukrainian exporters to foreign importers (also with payments in kind) with or without sending goods across the customs border of Ukraine, including re-export of goods<sup>16</sup>. In an economic system, export works as an important driver of economic growth and integration into the world economy and, therefore, it becomes particularly important in countries with transition economies where building and implementation of foreign trade policy is a form of economic and political self-determination and a basis for entry into the global economic system on equal grounds.

Export orientation gives incentives for allocating resources internally according to international opportunity costs, enhances competition, and increases the level of innovation and growth in investment activity. For example, M. Hatsalov notes that the export-led model means orientation of newly established industries mainly on foreign markets, often combined with active involvement of foreign capital in export production, and less often in combination with low import duties<sup>17</sup>. It should be mentioned that in the dynamic global economic environment countries and industries with developed foreign trade are much more efficient in responding to external challenges. It is confirmed by B. Balassa's<sup>18</sup> analysis suggesting that the countries that chose the export-led development model for post-petroleum shock found themselves in a better position than those that only focused on the import substitution strategy.

The main preconditions for export-led activities include the presence of unique goods and services. Uniqueness of goods can depend on the natural and geographical potential which makes the

<sup>14</sup> *Reisberg B. A.* The Contemporary Economic Dictionary/B. A. Reisberg, L. Sh. Lozovsky, E. B. Starodubtseva. — Moscow: INFRA Publishing House — Moscow, 1999. — P. 479 [In Russian].

<sup>15</sup> *Samuelson P.* Economics: Translated from English /P. Samuelson, W. Nordhaus. — Moscow: BINOM Publishing House, 1997. — P. 699 [In Russian].

<sup>16</sup> International Trade: Act of Ukraine No.No.960–XII dated April 16, 1991/[E-resource]. — Access mode: <http://zakon4.rada.gov.ua/laws/show/959–12> [In Ukrainian].

<sup>17</sup> *Hatsalov M. M.* The Contemporary Economic Glossary/M. M. Hatsalov. — Ukhta: Publishing House of the Ukhta State Technical University, 2002. — P. 371 [In Russian].

<sup>18</sup> *Ivashchuk. S.* The Export Strategy in Contemporary Public Administration System/S. Ivashchuk//The International Economic Policy. — No.10 - 11. — 2009. — P. 102 — 128 [In Ukrainian].

basis for export of raw materials, as well as on the influence of dynamic factors that emerge as social production develops. These include skilled labour, technology, science, etc. The existence of these factors means high-tech export orientation. Another potential driver of export development is a significant level of import-dependent economy which usually has a resource, and very rarely, a technological nature, as well insufficient internal market size.

Export activity is implemented within export potential which, by definition of A. Azrilyan, means ability of total production of a country to create the required amount of competitive products for foreign markets<sup>19</sup>. According to M. Seyfullaeva and V. Kapitsyn, export potential is resource-based and depends on the state of economy that determines scientific, technical, industrial, social and cultural development of a region achieving sustainable growth of export production and high living standards that meet market conditions at a particular point in time and in the future<sup>20</sup>. T. Gordeyeva believes that export potential is the highest level of a business' ability to produce, with available level of technical and economic resources, competitive products on the national territory and to sell them in the global market<sup>21</sup>. T. Melnyk, a Ukrainian economist, concludes that since national competitiveness has a three-tier structure — of a country, industry and business — there is a close correlation between the increase in competitiveness of domestic products in the global market and growth of export potential of national economy<sup>22</sup>. Analysis of the previous studies shows that development of export-led activities mainly depends upon the ability to produce competitive goods for foreign markets as it ensures resource potential at a business, industry and country level.

Having analysed the factor conditions of export activity in the industry we can conclude that they are traditionally associated with exogenous and endogenous orientation. This division is due to the need to harmonise the impact of internal and external environment which will help maximise advantages and neutralise risks. It is also reasonable to distinguish the impact of exogenous and endogenous factors at two levels: market and state. Such di-

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<sup>19</sup> The Economic Dictionary/ed. by Prof. A. N. Azrilyan. — Moscow: Pravovaya Kultura Foundation, 1994. — P. 478 [In Russian].

<sup>20</sup> Seyfullaeva M. E. The Export Potential of Russian Regions in the Context of World Economy Globalisation/M. E. Seyfullaeva, V. M. Kapitsyn//Marketing. — 2001. — No. 1. — P. 6 [In Russian].

<sup>21</sup> The Management of International Competitiveness in Globalising Economic Development: Monograph: in 2 volumes/[ D. G. Lukianenko, A. M. Poruchnyk, L. L. Antonyuk et al. ]; general ed. by D. G. Lukianenko, A. M. Poruchnyk. — Kyiv: KNEU Publishing, 2006. — P. 816 [In Ukrainian].

<sup>22</sup> Melnyk T. M. The Export Potential of Ukraine: Evaluation Methodology and Analysis/T. M. Melnyk//The International Economic Policy. — No. 1–2. — 2008. — P. 241 — 271 [In Ukrainian].

vision is explained by the development of export-led activity in a mixed (contemporary) economic system which is based on the dual nature of regulation of national economy development, namely: market ways and their alternatives – non-market methods (corporate coordination) – at a micro level, and public administration and regulation system at a macro level (Table 1).

**Table 1 Factor conditions for development of export-led activities in agricultural sector**

Factor Level	Endogenous	Exogenous
Market	<ul style="list-style-type: none"> <li>- skilled labour;</li> <li>- modern, high-end production technology;</li> <li>- provision of financial resources and raw materials;</li> <li>- information, innovation and investment potential;</li> <li>- internal market saturation.</li> </ul>	<ul style="list-style-type: none"> <li>- world market conditions;</li> <li>- world market size;</li> <li>- competition;</li> <li>- accessibility of world market infrastructure.</li> </ul>
State	<ul style="list-style-type: none"> <li>- state's international trade and import substitution policies;</li> <li>- export support and promotion;</li> <li>- participation in integration associations and international organisations;</li> <li>- level of development and international harmonisation of a legal framework.</li> </ul>	<ul style="list-style-type: none"> <li>- policies of international organisations and integration groups;</li> <li>- international system of principles, norms and standards.</li> </ul>

Source: compiled by the author.

The general principles, objectives and legal basis of regulation of export flows at a national level are reflected in export policy, however, it is rather difficult, or sometimes even impossible, to separate it from import policy. It can be explained by the considerable similarity, interweaving, interdependence and sometimes equality of principles, methods and instruments of regulation<sup>23</sup>. Therefore, export-led model of an industry must be within the framework of foreign policy and meet agro-food policy objectives. In this regard, another component of the general economic strategy is the import substitution policy defined by S. Kvasha as a process of reducing or stopping import of certain goods by their removal from a country's market and substituting with similar domestic, adequate goods with better consumer

<sup>23</sup> The Management of International Competitiveness in Globalising Economic Development: Monograph: in 2 volumes/[ D. G. Lukianenko, A. M. Poruchnyk, L. L. Antonyuk et al. ]; general ed. by D. G. Lukianenko, A. M. Poruchnyk. — Kyiv: KNEU Publishing, 2006. — P. 816 [In Ukrainian].

properties and the price not higher than that of the imported goods<sup>24</sup>. At first glance, import substitution is the opposite of export-led development. For example, some researchers believe that import substitution policies are inefficient as they inhibit the formation of capital and import of technology, slow down structural changes, disrupt distribution of resources and reduce international trade<sup>25</sup>. However, traditional dichotomy between import substitution-based and export-led growth is incorrect which was proved in practice by V. Ojimi, Japan's Ministry of International Trade and Industry<sup>26</sup>. His strategy of import substitution, as well as France's strategy in the 1950's<sup>27</sup>, was to use industry growth within the domestic market as a springboard for conquering export markets, and export was stimulated by the development of Japanese economics. Therefore, it can be concluded that import substitution used in the general economic growth strategy of a country causes structural transformation that eventually form the platform for export-led development.

Based on the findings described above we can formulate a definition of export-led activity as a process of using export potential for production and selling competitive goods and services in foreign markets, and developing in under exogenous and endogenous factors of market and state influence. Generally, the export-led concept of economic development is aimed at using export promotion to integrate a national economy into the global economic system.

### **Dynamics of Agro-Food Export: Global and Macroeconomic Factors**

The findings of the previous studies make it possible to distinguish three periods of market relations in agricultural sector during globalisation of economic relations. Each period has its own signs and different, sometimes inverse proportion dynamics of development (Fig. 1). The first period was between 1991 and 2000. It was transitional and occurred during a deep social and economic crisis. The reforms in agrarian sector, including liberalisation of international trade relations, caused low competitiveness of new businesses and the loss of domestic agro-food market. Excessive disparity in

<sup>24</sup> Ukrainian Agrarian Exports and Imports: Status and Trends/[S. M. Kvasha, V. I. Vlasov, N. V. Kryvenko et al.]; ed. by S. M. Kvasha. — Kyiv: Publishing House of the Institute of Agricultural Economics, 2013. — P. 80 [In Ukrainian].

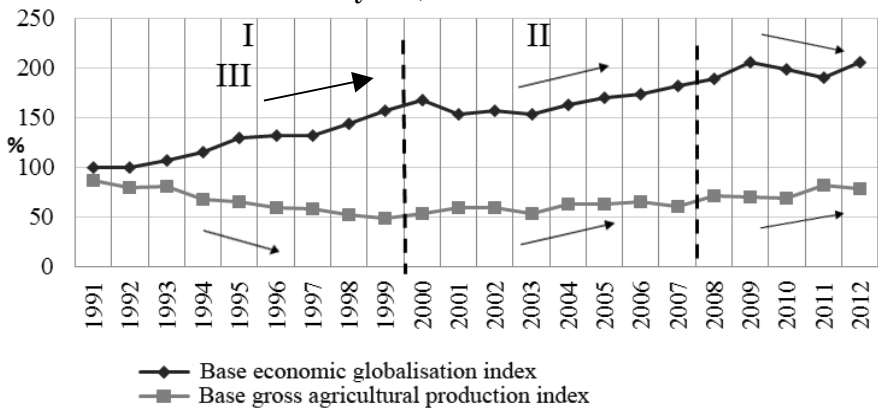
<sup>25</sup> Levine R. Sensitivity Analysis of Cross — Country Growth Regression / Levine R. Renelt D. — American Economic Review 82. — 1992. — P. 942 — 963.

<sup>26</sup> Ojimi, V. (1970) Japan's Industrialization Strategy. In OECD, Japanese Industrial Policy, Paris: OECD.

<sup>27</sup> Eatwell J. Import Substitution and Export-Led Growth//The Economic Theory/ed. by J. Eatwell, M. Milgate, P. Newman.— Moscow: INFRA Publishing House — Moscow, 2004. — Vol. XII, P. 931 — (New Palgrave). P. 430-433 [In Russian].

prices was growing while investments in the agricultural sector reduced by 20 times. All these processes were taking place in the context of deepening economic globalisation, including Ukraine's accession to the European Bank for Reconstruction and Development, International Monetary Fund, World Bank Group, Council of Europe, GUAM Organisation for Democracy and Economic Development, Organisation of the Black Sea Economic Cooperation, etc., resulting in a growth of gross external debt which by the end of 1999 amounted to 66.2 % of the national GDP<sup>28</sup>.

The second period (between 2001 and 2008) showed a rising trend in both general economy and agricultural sector: gross production increased by 1.4 times, export by 6 times, investment in fixed assets by 7.5 times; foreign direct investment in agriculture by 8 times<sup>29</sup>. At the same time, there was a deeper economic globalisation as Ukraine was recognised as a market economy by 21 EU member states (on December 21, 2005), by the USA (on February 17, 2006) and by Brazil (on March 21, 2007) whereby our country became the 152nd member of the World Trade Organization (WTO ) on May 16, 2008<sup>30</sup>.



**Fig. 1. Dynamics of Globalisation and Gross Agricultural Production Indicators, 1991-2012\***

Source: calculated by using the data available<sup>31 32</sup>.

\* The output data for the diagram are given in Annex 1.

<sup>28</sup> Ukraine's Participation in International Organisations//[E-resource]. — Access mode: <http://mfa.gov.ua/ua/about-ukraine/international-organizations> [In Ukrainian].

<sup>29</sup> The Agriculture of Ukraine 2012: Annual Statistical Report/general ed. by Yu. M. Ostapchuk; The State Statistics Committee of Ukraine. — Kyiv, 2013. — P. 340 [In Ukrainian].

<sup>30</sup> The Ukrainian Path to the WTO//Ukraine and the World Trade Organisation [E-resource]. — Access mode: <http://wto.in.ua/index.php?lang=ua&get=4> [In Ukrainian].

<sup>31</sup> KOF Index of Globalisation//[E-resource]. — Access mode: [http://globalization.kof.ethz.ch/media/filer\\_public/2013/03/25/method\\_2013.pdf](http://globalization.kof.ethz.ch/media/filer_public/2013/03/25/method_2013.pdf).

<sup>32</sup> Ukraine's Gross Agricultural Production Between 1990 and 2010: Annual Statistical Report/general ed. by N. S. Vlasenko; the State Statistics Committee of Ukraine. — Kyiv, 2012. — P. 49 [In Ukrainian].

The third period (between 2009 and 2012) saw multi-directional economic globalisation and development of agriculture. In particular, the pace of economic globalisation was somewhat slowed down. This period was marked by the beginning of the global financial crisis (in Q4 2008), recession in 2009, a slight growth between 2010 and 2012, and a new recession in late 2012. The agricultural sector demonstrated a slight decrease in production, e.g. in 2009 versus 2008 this indicator only decreased by 2 %, while the official data of the State Statistics Committee show that the country's real GDP in the respective period decreased by 15 %<sup>33</sup> In 2009, the agricultural export decreased by 12 % on a year-over-year basis, however, in 2011 it exceeded the pre-crisis rate of 18 %, and 65 % in 2012. Foreign capital investments in the agricultural sector grew by 1.5 times.

Therefore, it can be concluded that starting from 1990's the globalisation trends generally made a positive driver for economic growth of agricultural sector. And in terms of trade liberalisation, harmonisation of technical standards and consumer preferences, the use of export potential can be maximised. As noted by some scientists<sup>34</sup>, a significant increase in sales accounts for agricultural and derivative products, and here it can be assumed that growth in agricultural sector is the so-called export-led growth. The development of foreign trade relations, in particular in exports, can also be seen as a consequence of economy globalisation and reduction of barriers to international goods and services trade.

The positive impact on agricultural export is demonstrated by the model of Ukraine's economic globalisation dynamics impact on the development of export activity of agrarian business between 1991 and 2012, which proves a strong direct correlation between export growth and increase in economic globalisation rates. Such increase in economic globalisation rates by 1 % caused a rise in agricultural exports by 0.2 % (Fig. 2).

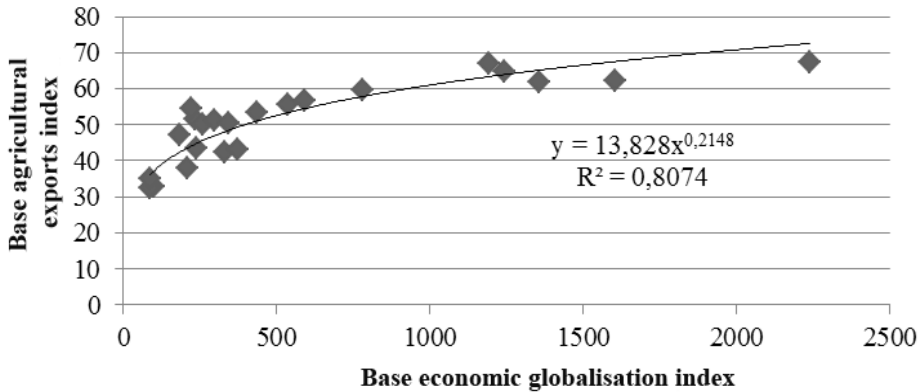
As it has been already mentioned, one of the key indicators of globalisation and development of export-led production is the share of agro-food in global export. According to the World Trade Organisation's (WTO) data, this share was 9 % in 2012. The data in Table 2 show an increase in exports of certain products both in the world and in Ukraine. One of the reasons is the significant rise in world prices for agricultural raw materials and

<sup>33</sup> The Quarterly Calculations of Ukraine's Gross Domestic Product in 2001 to 2012: Annual Statistical Report/general ed. by I. M. Nikitina. — Kyiv, 2013. — P. 168 [In Ukrainian].

<sup>34</sup> Lopatinskyi Yu. F. The Effects of Globalisation on the Development of Ukrainian Agricultural Sector/Yu. F. Lopatinskyi//The Innovative Economy. — No.3(40). — 2013 [In Ukrainian].



food due to escalation of the global food crisis. In particular, according to the UN's Food and Agriculture Organisation (FAO)<sup>35</sup>, food price indicators grow steadily each year, e.g. in 2000, the food price index was 90.4, in 2005 it was 127 while in 2012 it equaled to 215.



**Fig. 2. Economic Globalisation Dynamics Impact on Ukraine's Agricultural Export in 1991 to 2012\***

Source: created by the author based on the data available<sup>36,37</sup>.  
\*The base value used was the agricultural export indicator in 1991.

**Table 2. Dynamics of agricultural and food exports, mln. US dollars**

Indicator	Year			
	2000	2005	2012	2012/05 times
Global Exports	551074.4	852335.2	1656711.3	3.0
Ukrainian Exports	1585.3	4734.3	18528.1	11.7
Ukraine's Share in Global Exports	0.3	0.6	1.1	3.6

Source: calculated by using the data available on <http://www.wto.org>

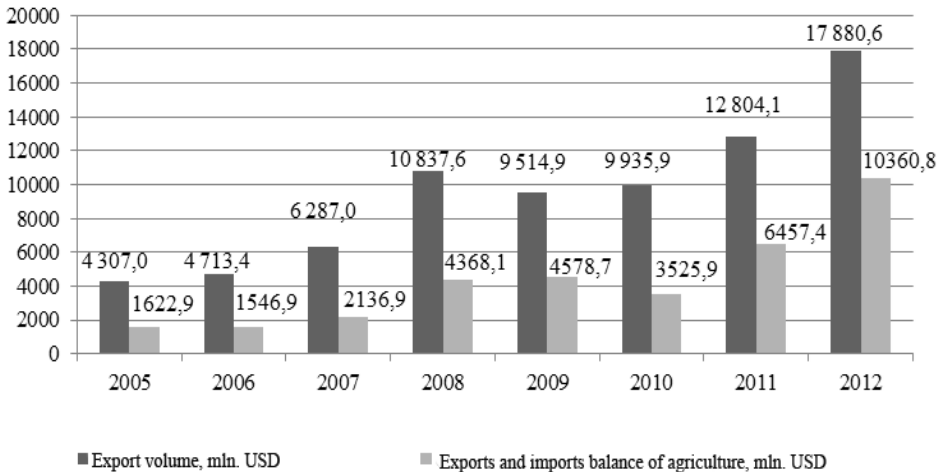
Since 2000, Ukraine has seen a strong tendency to increase in gross production of agricultural products and food, e.g. it grew

<sup>35</sup> The State Statistics Service. International Trade//[E-resource]. — Access mode: <http://www.ukrstat.gov.ua> [In Ukrainian].

<sup>36</sup> KOF Index of Globalisation//[E-resource]. — Access mode: [http://globalization.kof.ethz.ch/media/filer\\_public/2013/03/25/method\\_2013.pdf](http://globalization.kof.ethz.ch/media/filer_public/2013/03/25/method_2013.pdf).

<sup>37</sup> International Trade and Market Access Data, 2012 // [E-resource]. — Access mode: [http://www.wto.org/english/res\\_e/statis\\_e](http://www.wto.org/english/res_e/statis_e).

by 32.4 % from 2000 to 2012. At the same time, there has been a steady increase in agricultural exports combined with a positive trade balance (Figure 3).



**Fig. 3. Ukraine's Agricultural Exports from 2005 to 2012**

Source: calculated using the data available<sup>38</sup>.

Crop products are the key Ukrainian goods in the international markets (Fig. 4). Such raw material orientation of foreign trade makes the country vulnerable in the global market as demand for commodities is highly volatile and the added value of these products is very low, which reduces the efficiency of Ukraine's export potential. In general, the main peculiarity here is that with all fluctuations in volumes there is a trend towards increasing the positive balance growth rate. The unacceptable trend of increase in the share of agricultural raw materials exports compared to exports of semi-finished and finished products of the processing industry also causes the loss of the added value which is later created by importing countries (Table 3). For example, \$1.00 of raw materials exports accounted for \$2.4 of finished products exports in 1991, however, the gradual reduction in the processing industry's volumes deteriorated this indicator dramatically: as \$1.00 to \$0.7 in 2012.

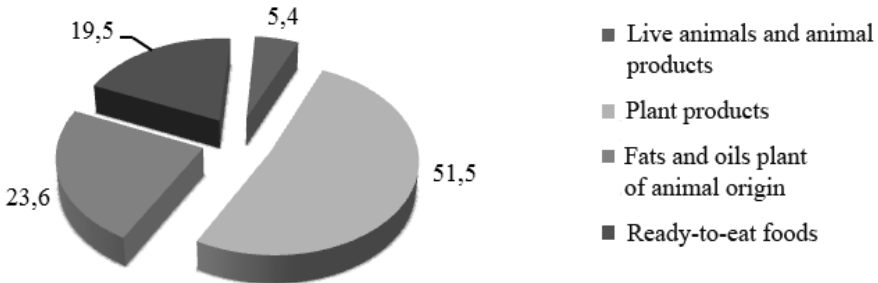
<sup>38</sup> The Agriculture of Ukraine 2012: Annual Statistical Report/general ed. by Yu. M. Ostapchuk; The State Statistics Committee of Ukraine. — Kyiv, 2013. — P. 340 [In Ukrainian].

**Table 3. Agricultural exports structure from 1991 to 2012**

Agricultural Products	Year			
	1991	2000	2005	2012
I. Total Agricultural Volumes, mln. USD	1001.1	734.2	2392.4	10175.2
– live animals and animal products	652.7	366.3	732.2	961.3
– plant products	348.4	367.9	1695.9	9213.9
II. Total Processing Industry Volumes (Ready-to-Eat Foods), mln US dollars	2448.0	417.0	1320.8	7705.4
Ready-To-Eat Food Exports per \$ 1.00 of Raw Material Exports	2.4	0.5	0.6	0.7

Source: calculated by using the data of the Ukrainian State Statistics Service<sup>39</sup>.

The studies also show<sup>40</sup> that there is a potential threat if under the conditions of free trade with the EU countries exports of the ‘meat and edible offal’ and ‘vegetables’ categories increase as it can limit the growth of Ukrainian production. Therefore, the main objective of export-led development is to improve the technical and technological level of production which will further improve processing and enhance the consumer indicators of competitiveness of agricultural goods.



**Fig. 4. Ukraine's Agricultural Export Structure in 2012, %**

Source: created by using the data of the State Statistics Service of Ukraine<sup>41</sup>.

Another negative trend is the great share of intra-industry trade, as evidenced by the analysis of the Grubel-Lloyd (GL)

<sup>39</sup> The State Statistics Service. International Trade//[E-resource]. — Access mode: <http://www.ukrstat.gov.ua> [In Ukrainian].

<sup>40</sup> Ukrainian Agrarian Exports and Imports: Status and Trends/[S. M. Kvasha, V. I. Vlasov, N. V. Kryvenko et al.]; ed. by S. M. Kvasha. — Kyiv: Publishing House of the Institute of Agricultural Economics, 2013. — P. 80 [In Ukrainian].

<sup>41</sup> The Agriculture of Ukraine 2012: Annual Statistical Report/general ed. by Yu. M. Ostapchuk; The State Statistics Committee of Ukraine. — Kyiv, 2013. — P. 340 [In Ukrainian].

index (according to<sup>42</sup>) (Table 4). In particular, this situation is typical for a group of dairy and meat products, vegetables, sugar beet, etc. The international trade with the structure where the share of intra-industry trade dominates over the inter-industry trade is driven by large-scale economy rather than as a result of using comparative advantages. In the context of presence of the same factors of production (of a business, industry, country), this causes higher proceeds from all factors of production.

By today, export of a large number of agricultural products has been formed due to a low aggregate demand and prices in the domestic market. This trend cannot secure long-term export prospects as industry's competitive positions in foreign markets must be formed under conditions of price competition and domestic market saturation. Therefore, it is reasonable to implement the import substitution policy in relation to the product groups where export is dominated by import. First of all, this applies to vegetables, cattle meat and milk. S. Kvasha believes that the implementation of the agrarian import substitution programme by resuming the production that was lost due to lack of financial resources, and formation of a new infrastructure will help increase production for domestic consumption<sup>43</sup> and promote demand for international markets.

**Table 4 Intra-industrial agricultural trade efficiency in 2012**

Indicator ( <i>according to Ukrainian Classification of Goods in International Trade</i> )	Export, mln US dollars	Import, mln US dollars	GL Index
I Live animals; animal products	961.3	1718.4	1.3
II Plant products	9213.9	2429.7	0.4
III Fats and oils of plant or animal origin	4211.5	406.3	0.2
IV Ready-To-Eat Foods	3493.9	2965.4	0.9

Source: calculated by using the data of the State Statistics Service of Ukraine<sup>44</sup>.

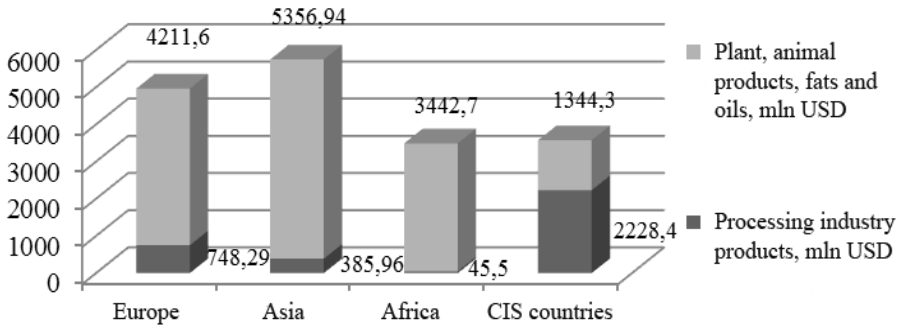
The geographic diversification of agro-food product exports is a positive trend (Fig. 5), which makes it possible to spread the risks of changes in foreign market conditions. However, the nega-

<sup>42</sup> *Yatsenko O.* The Competitive Positions of Leading Honey Producers//O. Yatsenko [E-resource]. — Access mode: [http://www.znau.edu.ua/visnik/2011\\_1\\_2/225.pdf](http://www.znau.edu.ua/visnik/2011_1_2/225.pdf) [In Ukrainian].

<sup>43</sup> Ukrainian Agrarian Exports and Imports: Status and Trends/[S. M. Kvasha, V. I. Vlasov, N. V. Kryvenko et al.]; ed. by S. M. Kvasha. — Kyiv: Publishing House of the Institute of Agricultural Economics, 2013. — P. 80 [In Ukrainian].

<sup>44</sup> The State Statistics Service. International Trade//[E-resource]. — Access mode: <http://www.ukrstat.gov.ua> [In Ukrainian].

tive aspect here is that Ukrainian manufacturers of ready-to-eat foods have a small share in foreign markets, which evidences rather low competitiveness of goods in terms of the price/quality ratio.



**Fig. 5. Geographical Structure of Ukraine's Agricultural Exports in 2012, thousand USD**

Source: calculated by using the data of the State Statistics Service of Ukraine<sup>45</sup>.

Growth of finished products share in total exports is important for Ukraine as this trend will contribute to strengthening the country's competitive position. It is important to note that Ukrainian exports of finished products have increased by 2.7 times from 2005 to 2012. It is particularly noteworthy that the most significant increase can be seen exports to Europe — by more than 5 times<sup>46</sup>.

However, in our opinion, the agricultural sector is not using its entire export potential, without regard to the current trends and needs of the global market, which poses the risk of weak trade positions for Ukrainian economy. To equalise the imbalance in the development of an export-led sector we must form a progressive goods and geographical structure, increase the level of technical and technological support and knowledge-based production, improve the quality of institutional environment, promote the growth of the domestic market, activate the import substitution policies, etc.

<sup>45</sup> *Yatsenko O.* The Competitive Positions of Leading Honey Producers//O. Yatsenko [E-resource]. — Access mode: [http://www.znau.edu.ua/visnik/2011\\_1\\_2/225.pdf](http://www.znau.edu.ua/visnik/2011_1_2/225.pdf) [In Ukrainian].

<sup>46</sup> *Ukrainian Agrarian Exports and Imports: Status and Trends*/[S. M. Kvasha, V. I. Vlasov, N. V. Kryvenko et al.]; ed. by S. M. Kvasha. — Kyiv: Publishing House of the Institute of Agricultural Economics, 2013. — P. 80 [In Ukrainian].

## Globalisation Preconditions for Development of Export-Led Activities in Agricultural Sector

The key features of the current stage of globalisation are: firstly, its globality (all countries and regions are more or less influenced by integration processes) and universality (versatility of the integration trend that tends to unify most areas of human life and consciousness); secondly, addressing situations of exceptional internal influence, national and government development factors while the exogenous global factors are becoming crucial in most national situations.

Globalisation works as an objective and inevitable process and Ukraine is already actively involved in it. In particular, the results of KOF Index of Globalisation studies demonstrate that Ukraine in the list of countries with economic globalisation indicator higher the average (50 %), in 2012 took the 61st place out of 148 countries with index 67.4 %<sup>47</sup>. It is important that this trend of economic development is considered given the geographical location, political positions and economic needs in order to timely create own development strategy and become a meaningful actor of the world economy. However, according to O. Bohomolov, the renowned Russian scientist,<sup>48</sup> the benefits of economic globalisation are not implemented automatically, and not all countries will equally feel them as sustainable economic growth mainly depends on internal conditions.

The studies conducted by Ukrainian and Russian researchers<sup>49</sup><sup>50</sup> show that in the early 21st century the development of the neo-liberal globalisation model caused the need to compare the views as to its mechanisms, methods, rates and consequences for national economies. Economic globalisation influences the involvement of many new regions and areas of human activity in commodity/money relations. International trade and capital flows increase dramatically, and national economies with their respective industries become more and more export-led.

The international division of labour is one of the objective factors that determine the process of economic globalisation. It de-

<sup>47</sup> KOF Index of Globalisation//[E-resource]. — Access mode: [http://globalization.kof.ethz.ch/media/filer\\_public/2013/03/25/method\\_2013.pdf](http://globalization.kof.ethz.ch/media/filer_public/2013/03/25/method_2013.pdf).

<sup>48</sup> *Bohomolov O.* The Globalisation and World Economic Order Crisis/O. Bohomolov, A. Nekipevlov//Facets of Globalisation: Contemporary Development Issues. — Moscow: Alpina Pablysher, 2003. — P. 99-146 [In Russian].

<sup>49</sup> The Anthology of Classic Works in Economics: in 2 volumes/compiled by I. A. Stolyarov. — Moscow: EkoNov, 1993. — P. 959 [In Russian].

<sup>50</sup> *Bashnyanyan H. L.* The Market Economies: Issues of Formation, Functional Structuring and Typologisation/H. L. Bashnyanyan, I. M. Kopych, M. L. Slyusaryk — Lviv, 2001. — P. 212 [In Ukrainian].

rives from the classical theories of absolute and comparative benefits and is based on specialisation of production of certain types of goods in particular countries. The international division of labour has created a platform for expansion of international trade and a reliable basis for the development of the world market, especially its agricultural component.

According to the Heckscher–Ohlin theorem<sup>51</sup>, the key factors of active use that allow making export-led agricultural products include land and labour. However, at the present stage, the convergence processes in the global economy as well as the global environment make such benefits absolutely insufficient for the formation of the industry's competitive position in the global market.

The annual report 2012 of the UN Conference on Trade and Development (UNCTAD) stated that the traditional model of export-led development cannot continue to exist in the same form<sup>52</sup>. The point is that a large number of countries with transition economies try to take advantage of global market liberalisation and continued to increase the pace of exports of raw materials and cheap low-tech goods. This policy has contributed to the expansion of the world economy, which was highly essential for the developing countries, based on excessive demand from developed economies and powerful multinational companies. Eventually, this caused an increase in unmet demand in transitive economies, reduction of productivity and performance, which resulted in greater global economic imbalances and higher social tensions throughout the world. Therefore, the export-led production strategy should be built upon the social and economic imperatives of development. The methodological platform of the export-led strategy in the global innovation economy must include new perspectives on agriculture (new agrarian vision, agrarianism) based on social and environmental priorities (ecocriticism), active state and civil policies and legally established social criteria<sup>53</sup>. The export-led development should be based on the principle of making globally competitive products in line with the requirements that are formed by global demand and economic, marketing, consumer, regulatory and environmental elements of global competitiveness of agricultural resources and foods.

<sup>51</sup> The World Economy. Coursebook/ed. by Yu. H. Kozak, V. V. Kovalevskiy, N. S. Logvinova. — Kyiv: Study Materials Centre, 2010. — P. 328 [In Ukrainian].

<sup>52</sup> Trade and Development Report, 2012.//[E-resource]. — Access mode: [http://unctad.org/en/publicationslibrary/tdr2012\\_en.pdf](http://unctad.org/en/publicationslibrary/tdr2012_en.pdf).

<sup>53</sup> Contesting Development: Critical Struggles for Social Change. P.McMichael (ed.), N.Y., 2010. — P. 269] <http://www.m-economy.ru/art.php?nArtId=4273>

At the present stage, economic criteria (such as low export prices) are decisive in ensuring the competitiveness of domestic agro-food products in the world market. However, the consumer and regulatory elements are implemented partially while the environmental and marketing criteria are hardly used by exporters in forming the competitive advantages of products<sup>54</sup>. As a result, the strategy reduces long-term efficiency, flexibility and stability of exports.

The findings of the previous studies help us identify the promising areas and establish that implementation of the consumer competitive advantages can be achieved by balancing the oppositely directed economic interests of the actors involved in the formation of quality properties of products at all stages of the production chain. The regulatory component of products competitiveness must be ensured by convergence of the national and international standards, which will ultimately form equitable economic relations between agricultural and processing sectors and reduce exporters' additional costs to re-certification in importing countries.

It is hard to overestimate the importance of quality and stability of the institutional environment which plays a key role in shaping the terms of legal, investment, financial, infrastructural, organisational and socio-cultural environment. Besides, the influence of state institutions is not limited by national boundaries. In the context of globalisation trends, institutions help establish reliable relations between international trade actors and international markets, and ensure efficient, transparent relationship.

The ecological and marketing component of product competitiveness is significant, however, it has not been implemented in Ukraine yet. The recommended priority measures for its activation are: reallocation of a large part of pollution-free land for organic farming; assisting in the formation of long-term marketing strategies by the industry's export-led businesses; opening access to the global logistics infrastructure for international trade actors, etc.

In an industrial and post-industrial society, competition becomes the basis of dynamic economic growth. Accordingly, in addition to the classical concept, which is based on the use of a national economy's comparative advantages, we should change the direction of using the dynamic competitive advantages that emerge in the public production process. They rest upon the

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<sup>54</sup> *Bobov H. B.* The Formation of Ukraine's Agricultural Competitiveness/*H. B. Bobov, I. V. Kuzmenko, L. V. Mykhailyshyna*//The Economic Forum. — 2011. — No.2. — P. 67-73 [In Ukrainian].



achievements of science and technology, skilled labour and innovation, and their use is essential at all stages of production, storage, transport and distribution of export products.

A review of the factor conditions of export-led activities via M. Porter's<sup>55</sup> concept of national competitive advantages shows that development of related and supporting agriculture industries is a special condition for functioning of export production. These industries include the respective areas of engineering, chemical and processing industries as well as certain service activities. Their main role is to establish long-term, continuous business contacts that accelerate innovation processes. In agricultural sector, groups of companies from related industries that are located in the same region (according to M. Porter) can be presented by the clusters which collectively enhance competitive advantages due to partners' close business contacts and mutual trust.

In addition to the traditional factor conditions, the development of export-led strategy should also consider the important determinants such as information and innovation capacity and infrastructure (market, educational, social, cultural, etc.). At the institutional level, the state innovation and investment policy's priority should be creation of highly attractive legal environment that activates an investment process in this area of agricultural economy. In the modern reality of agricultural production, the main source of funding for innovation and investment is the income of businesses which is insufficient for updating technical processes. Therefore, the development of the innovation and investment policy in an export-led industry should be based on mobilisation and comprehensive use of innovation and investment potential at micro, meso and macro levels, to move production to a new technological stage as soon as possible.

The structure of agro-food exports must agree with the contemporary sustainable development paradigm. The focus of structural adjustment of export-led production should be on increasing production of consumer goods versus raw materials. Such focus on high-tech production with increase in product processing and added value will help Ukraine to exit the group of resource providers and enhance its overall competitiveness in the global market.

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<sup>55</sup> *Porter M. Competitive Advantage of Nations / Porter M.*— New York City: Simon & Schuster, 1998 — P. 896.

## Conclusions

At present, agricultural exports make it possible for Ukraine to enter the global economic system with equal positions and gain its share in the world agricultural market. Export-led activity is based on the process of using a country's export potential for production and selling competitive products in foreign markets, the process formed and operating under the influence of market factors and state regulation. The factor conditions of export development are associated with exogenous and endogenous influences. The endogenous market factors include modern technology, labour, innovation and investment capacity, financial resources and domestic market saturation. The exogenous market factors are conditions, size and infrastructure of the global market. Endogenous influence of the state is determined by foreign policy and import substitution, participation in international organisations and integration associations, degree of development and international harmonisation of legislation. Exogenous influence takes place through international economic policies, principles, rules and standards.

The globalisation trends between 1990 and 2012 generally intensified export-led activities and agricultural sector saw an export-led growth. Over the past eight years, there is a tendency to increase in positive trade balance, and the diversified geographical structure of exports allows neutralising the risks of external markets. However, the country remains vulnerable in the world market due to its resource-based orientation, low competitiveness of Ukrainian goods – which is caused by poor technological support – and the intensive intra-industry trade. Export-led activities are being developed under the influence of low aggregate demand and price level in the domestic market.

The priorities of the general development strategy of export-led activities are: switching to a progressive commodity structure of exports by increasing the proportion of finished products, growing competitiveness by using the technological component of production, implementation of the import substitution policy and intensifying intra-industry trade. The principles of the innovation and investment policy should include mobilisation and comprehensive use of potential of international trade actors at micro, meso and macro levels to accelerate entry into a new technological stage. The modern export-led development should be based on socio-economic and environmental imperatives, and on the principle of manufacturing global competitive products in line with the requirements that are formed by global demand, economic, marketing, consumer, regulatory and environmental elements of global competitiveness of agro-foods.

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*Annex 1***Dynamics of Ukraine`s economic globalization indices  
and gross agricultural production in 1991 to 2012**

Year	Economic Globalisation Index	Base Economic Globalisation Index, % up to 1991	Base Gross Agricultural Production Index, % up to 1991
Period I – Transition to Market Economy			
<b>1991</b>	32.66	100.0	86.8
<b>1992</b>	32.46	99.4	79.6
<b>1993</b>	34.93	107.0	80.8
<b>1994</b>	37.88	116.0	67.5
<b>1995</b>	42.39	129.8	65
<b>1996</b>	43.27	132.5	58.9
<b>1997</b>	43.33	132.7	57.8
<b>1998</b>	47.13	144.3	52.2
<b>1999</b>	51.47	157.6	48.6
Period II – Economic Growth			
<b>2000</b>	54.64	167.3	53.4
<b>2001</b>	50.15	153.6	58.9
<b>2003</b>	51.24	156.9	59.6
<b>2004</b>	50.27	153.9	53.0
<b>2005</b>	53.23	163.0	63.5
<b>2006</b>	55.46	169.8	63.5
<b>2007</b>	56.73	173.6	65.1
<b>2008</b>	59.67	182.7	60.9
Period III – Post-Crisis Period			
<b>2009</b>	61.94	189.7	71.3
<b>2010</b>	67.14	205.6	70.0
<b>2011</b>	64.84	198.5	68.9
<b>2012</b>	62.09	190.1	82.6