

Foreign economic activity and priority directions of economic integration of Ukraine

- In recent years appeared a tendency of growing of presence of Ukrainian enterprises on the international markets
- The main obstacles for the development of foreign - economic activity of enterprises include customs barriers and high prime cost of production.
- Ukrainian exporters became more attractive partners comparing to previous years.
- There is a tendency of reduction of the number of enterprises that choose integration with Russia, while the number of adherents of economic integration with the EU states increased in recent years.
- Almost the same is the situation with Ukraine's accession to regional organizations. The number of adherents of WTO accession increased in recent years, while the number of SES adherents reduced.
- The number of adherents of EU accession decreased.

A panel of 300 manufacturing firms is used to monitor their managers' perceptions about markets, the business climate, investment activity and the performance of their firms.

In this issue: Results of the surveys conducted in 2005

New: Managers opinions about regional organization accession

In 2005, the authorities paid particular attention to foreign economic relations. Annual surveys of the business circles' attitude to the problems and prospects of foreign economic activity of enterprises show that in 2005, the trend towards the increase in the number of adherents of the Western vector of economic co-operation continued¹³. The Ukrainian business is increasingly aware of the benefits of co-operation with partners from the partners developed countries.

Key directions of export activity

In the recent years, the presence of Ukrainian industrial enterprises on the international markets has been growing. In particular, the share of exporters among enterprises subject to monitoring increased from 25% in 1998 to 40% in 2005. The key destinations of exports did not change in 2005, compared to 2004. According to **Table "Main markets of exporting enterprises"**, for 79.8% of respondents, Russia and the CIS states were the main market. 28.0% conducted trade operations mainly with West European countries, 17.2% — with East European.

Meanwhile, the export operation of enterprises became more diversified: the share of enterprises that have more than one export market increased from 31% in 1998 to 61.7% in 2005. Within two years, it is predicted to grow to 70.3%.

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	1998		1999		2001		2003		2004		2005	
	Now	In 2 years	Now	In 2 years	Now	In 2 years	Now	In 2 years	Now	In 2 years	Now	In 2 years
Russia and CIS	61.8	90.8	62.1	72.2	81.8	84.1	81.7	88.5	82.1	85.3	79.8	80.9
Western Europe	15.8	23.7	25.3	37.3	29.5	37.5	28.8	34.6	26.1	30.4	28	38.7
Eastern Europe	13.2	23.1	18.7	24	15.9	28.4	16.3	23.1	15.2	29.3	17.2	24.7
USA and Canada	7.9	9.2	8	14.7	10.2	12.5	9.6	15.4	10.9	14.1	9.7	8.6
Middle East and Africa	7.9	7.9	10.7	16	13.6	21.6	15.4	21.2	16.3	25	11.8	16.1
Eastern Asia	9.2	10.5	10.7	13.3	11.4	15.9	9.6	12.5	6.5	17.4	5.4	8.6
Other	5.3	5.3	4	5.3	2.3	6.8	1	3.8	2.2	3.3	3.2	2.2

Obstacles for foreign economic activity

As the exporting enterprise managers reported, in 2005, the main obstacles for the development of foreign economic activity of their enterprises included customs barriers (46.8% of the polled) and high prime cost of produce (44.7%)¹⁵.

The list of the obstacles changed, compared to 2004. First of all, this refers to the decrease of the importance of the customs barriers as an obstacle for the foreign economic activity of enterprises. Although that item remained on the top of the list, its absolute value substantially decreased — from 60.2% in 2004 to 46.8% in 2005, evidently witnessing the business reaction to the liberalization of foreign trade attained in 2005.

The importance of the high prime cost of produce (rated second) increased (+4.9%), while the importance of the “absence of effective marketing” decreased (-8.0%). This trend is observed for a few years in a row and witnesses adaptation of enterprises to the market conditions.

	1998	1999	2001	2003	2004	2005
Low quality of goods	4.9	12.0	8.0	4.7	10.2	8.5
High cost of production	45.7	56.0	40.2	26.4	39.8	44.7
Lack of effective marketing	30.9	32.0	21.8	29.2	26.1	18.1
Customs restrictions	54.3	60.0	67.8	58.5	60.2	46.8
Prospective partners are unwilling to cooperate	22.2	22.7	9.2	26.4	18.2	9.6
Shortage of finance to promote the product	34.6	45.3	44.8	28.3	29.5	22.3
Discrimination measures for Ukrainian goods in the foreign markets	-	-	-	23.6	11.4	18.1
Do not know	4.9	5.3	4.6	6.6	6.8	11.7

Managers of exporting enterprises suggest that in 2005, Ukrainian enterprises became more attractive partners for foreign companies. The number of respondents suggesting that foreign partners are reluctant to work with enterprises

like theirs because of the unfavorable and political climate fell from 18.2% in 2004 to 9.6% in 2005. Meanwhile, the number of those who believe that foreign economic activity is hindered by discriminatory measures applied to their goods increased from 11.4% to 18.1%.

Attitude of enterprise managers to the directions of economic integration of Ukraine.

In 2005, the steady trend of the recent years towards the revision of the priority lines of economic integration of Ukraine continued: the number of adherents of economic integration with the EU states increased to 46% (against 26% in 1998), while the number of adherents of integration with Russia decreased from 47.3% to 26.1%, with the CIS states — from 38.5% to 22.5%.

	1998	1999	2001	2003	2004	2005
European Union	26	35.3	24.9	35.7	41.1	46.4
Russia	47.3	44.2	29.8	43.2	28.6	26.1
CIS	38.5	40.1	35.3	46.8	26.8	22.5
Baltic and Black Sea Community	13.9	9.6	4.5	-	-	-
GUUAM	-	-	4.8	-	-	-
Other countries	-	-	-	0.7	3.9	1.8
Integration is not needed	4	3.1	3.5	5.4	6.4	2.9
Do not know	27.7	28.8	17.6	13.9	21.1	26.4

By and large, the geo-economic perceptions of the business circles remain varied, that is, some respondents are unable to choose a single line of economic integration – the East or the West. But every year, the number of those who choose only one vector grows – as well as the number of those who cannot give a definite answer.

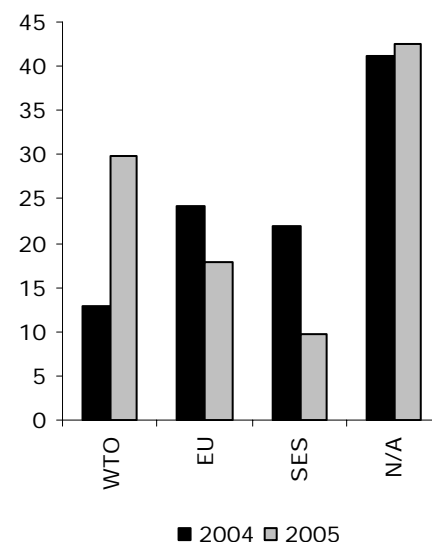
Demonstratively, in course of the year (from November 2004 to November 2005), the number of adherents of only the Eastern vector of economic integration fell from 28.8% to 24.2%. In contrast, the number of adherents of the Western vector increased from 23.1% to 32.7%.

Effect of Ukraine's accession to regional organizations for the national economy growth

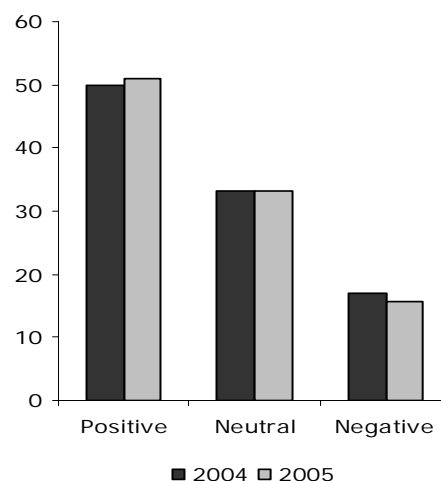
In 2005, the number of managers convinced that Ukraine's accession to the WTO will promote the growth of the national economy increased to 29.9%, against 12.8% in 2004. In contrast, the number of those who think the same way about the SES fell from 21.9% to 9.7%. At the same time, the number of those who similarly assess Ukraine's accession to the EU also fell (from 24.1% to 17.9%). 42.6% of the polled could not answer that question.

The assessments of the effects of Ukraine's accession to the WTO on enterprise imports and exports were surveyed separately. 51.1% of the polled managers of exporting enterprises who answered this question are sure that the accession to the WTO will positively influence export activity of their enterprises, 33.3% expect no influence, and only

Positive influence of Ukraine's accession to regional organisations on the national economy growth



Influence on Ukrainian's accession to the WTO on enterprise exports





15.6% believe that the influence will be negative. Compared to 2004, their positions actually did not change (Diagram “Influence of Ukraine’s accession to the WTO on enterprise exports”).

Among the managers of exporting enterprises who assessed the effects of Ukraine’s membership in the WTO for the import activity of their enterprises, 58.5% believes that its effects will be positive, 28.7% — neutral, and 12.7% expects negative effects (Diagram “Influence of Ukraine’s accession to the WTO on enterprise exports”).

Conclusion

Hence, the results of the survey of the foreign economic orientations of the business circles prove ever greater understanding of the Ukrainian business of the need of closer contacts with partners from the developed countries. Such a trend is encouraging, since such contacts guarantee high competitiveness and diversification of markets for the Ukrainian goods. The survey also showed that customs barriers — the key obstacle for the development of foreign economic activity of enterprises — was seen as less critical in 2005.