

С В І Т О В Е   Г О С П О Д А Р С Т В О

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## FOREIGN ECONOMIC STRATEGIC PRIORITIES OF UKRAINE

The paper is devoted to the analysis of modern foreign economic strategic priorities of Ukraine, features of their implementation in the context of the key purposes of economic development of the country. Emphasis is placed on the need to use modern tools to support domestic producers and limit import expansion in the context of the formation of a new export strategy of Ukraine. Ukraine is a small open economy that makes extensive use of external factors of economic development both in the context of markets for its products, especially the agricultural sector, and attracting important resources of critical imports, including oil and natural gas, electronic equipment and more. From this point of view, the analysis has revealed the role and importance of two key players in the world market – the United States and China – in ensuring Ukraine’s external economic balance. The paper empirically examines the dependence of certain macroeconomic indicators of Ukraine on similar indicators of the United States and China (the so-called ‘large’ and systemically important economies for Ukraine). Vector autoregression models were used as a research tool to explore the dynamic interdependencies between macroeconomic indicators in the case of explaining their present values by the previous ones. For this purpose, percentage changes in gross domestic product and consumer price index compared to the corresponding period of the previous year for the USA, China and Ukraine were selected. As a result of the research, impulse-response functions from ‘large’ economies showed the dependence of indicators that characterise economic development in Ukraine from them and their long-term absorption, both in the context of economic growth in these countries and inflation imports from abroad. Moreover, it should be noted that the influence of China is more significant than that of the United States, especially

if we consider the impact of fluctuations in the consumer price index in China on economic growth and inflation in Ukraine. This necessitates further research on this issue in line with the formation of scientifically sound foreign economic strategy and policy of Ukraine. The impact of economic growth in the United States and China on Ukraine's GDP fluctuations is positive and almost the same (peaking in the second quarter and gradual levelling over two years). In turn, the variance decomposition of forecast errors for Ukraine's GDP shows that in the long run about 52% of its variability result from modelled external factors, which in our opinion is due to significant openness of Ukraine's economy and, consequently, 'large' economies. Finally, paper emphasizes the need to assess their international economic policy to minimize risks in the implementation of the country's foreign economic strategy.

**Keywords:** *foreign economic priorities of Ukraine, small open economy, export strategy, export-import operations, VAR model, impulse-response functions analysis, variance decomposition*  
**JEL classification:** *F37, F42, F60, C01*

Стаття присвячена аналізу сучасних зовнішньоекономічних стратегічних пріоритетів України, особливостей їх реалізації в контексті ключових цілей економічного розвитку країни. Акцентовано увагу на необхідності використання сучасних інструментів підтримки вітчизняного виробника та обмеження імпортової експансії в контексті формування нової експортної стратегії України. Україна є малою відкритою економікою, яка широко використовує зовнішні фактори економічного розвитку як у контексті ринків збуту своєї продукції, особливо аграрного сектора, так і залучення важливих ресурсів критичного імпорту, зокрема нафти та природного газу, електронного обладнання тощо. З цієї точки зору аналіз виявив роль і значення двох ключових гравців світового ринку – США та Китаю – у забезпеченні зовнішньоекономічної збалансованості України. У статті емпірично досліджено залежність окремих макроекономічних показників України від аналогічних показників США та Китаю (так званих «великих») і системно важливих для України економік. Моделі векторної авторегресії використано як інструмент для дослідження динамічних взаємозалежностей між макроекономічними показниками у разі пояснення їх поточних значень попередніми. Для цього обрано відсоткові зміни валового внутрішнього продукту та індексу споживчих цін порівняно з відповідним періодом попереднього року для США, Китаю та України. Дослідження функцій реакції на імпульси з «великих» економік засвідчило залежність показників, що характеризують економічний розвиток в Україні, від зазначених шоків та їх довгострокове поглинання як в контексті економічного зростання в цих країнах, так і інфляційного імпорту з-за кордону. Крім того, слід зазначити, що вплив Китаю є більш суттєвим, ніж США, особливо якщо враховувати вплив коливань індексу споживчих цін у Китаї на економічне зростання та інфляцію в Україні. Вплив економічного зростання в США та Китаї на коливання ВВП України є позитивним і майже однаковим (пік у другому кварталі та поступове вирівнювання протягом двох років). У свою чергу, декомпозиція дисперсій похибок прогнозу для ВВП України показує, що в довгостроковій перспективі близько 52% його мінливості є результатом змодельованих зовнішніх факторів, що, на нашу думку, зумовлено значною відкритістю економіки України. Це зумовлює необхідність подальших досліджень даної проблеми в руслі формування науково обгрунтованої зовнішньоекономічної стратегії та політики України. Як результат, у статті наголошується на необхідності оцінки міжнародної економічної політики зазначених «великих економік» з метою мінімізації ризиків у реалізації зовнішньоекономічної стратегії країни.

**Ключові слова:** *зовнішньоекономічні пріоритети України, мала відкрита економіка, експортна стратегія, експортно-імпортні операції, VAR модель, аналіз функцій реакції на імпульси, декомпозиція дисперсій похибки прогнозу.*

**JEL classification:** *F37, F42, F60, C01*

**Formulation of the problem.** The core strategic documents<sup>1</sup> state that Ukraine lags behind countries of the region and its key trading partners in terms of foreign trade and

foreign investment. They also set ambitious strategic goals, including: ensuring mutually beneficial trade with the world and achieving expanded access to foreign markets; increas-

<sup>1</sup> Export Strategy of Ukraine 2017-2021, National Economic Strategy 2030, Economic Security Strategy of Ukraine

ing the competitiveness of Ukrainian goods and services, creating a positive image of the country and ensuring the presence of Ukrainian producers in international markets; modernisation of border infrastructure and ensuring effective customs regulation; implementation of a balanced import policy with a comprehensive assessment of the potential impact aimed at boosting mainly investment imports rather than consumer imports. They can be achieved only through a balanced and consistent foreign economic policy and strategy.

This article is dedicated to generalising the conceptual foundations and approaches to the formation of foreign economic priorities of Ukraine, revealing key issues in the development and practical implementation of the international economic strategy of the country in the context of excessive openness of its economy that increases vulnerability of internal market to global trends and economic environment. Under such conditions, there is a need to find reserves to reduce the level of import dependence of Ukraine's economy, ensure the diversification of exports and reduce raw materials in its structure.

The main hypotheses of the study:

empirical assessment of the dynamic interdependence of the main macroeconomic indicators of both Ukraine and major economies, including China and the United States, their possible impact on the implementation of foreign economic priorities of our country; tracing the priority impact of market factors and export strategy on Ukraine's foreign trade;

substantiation of the use of a dynamic stochastic general equilibrium model in the field of foreign economic policy.

**Analysis of recent studies and publications.** Strategies for exports and imports support as models for the development of the national economy are theoretically substantiated in the works of B. Balassa [3], K. Akamatsu [1], K. Kojima, J. Hicks [22]. Since the 70s of the twentieth century, export-oriented strategy of economic development has been theoretically substantiated in the works of foreign scholars, who studied the importance of trade policy grounded in economic open-

ness, identified factors of its effectiveness based on empirical results. The multifaceted and contradictory consequences of foreign trade liberalisation are substantiated in the scientific works of J. Stiglitz [45], [46], D. Dollar and A. Kraay [10], M. Ramzan [37], R. Rumelt [41] and others.

Foreign scholars D. Irwin [24], D. Rodrick [38] considered methodological principles of the study of regulatory policy in the field of foreign trade. Leading Ukrainian scientists and experts, such as V. Heyets [21], Y. Zhalilo [59], A. Filipenko [19], O. Shnyrkov [43] and many others have been engaged in the development of economic strategies, in particular, foreign economic strategy.

In addition, the foreign economic policy and strategies of countries are considered in reports and some special studies of a number of international organisations, including the WTO, IMF, Organisation for Economic Cooperation and Development, World Bank, etc.

At the same time, against the background of the pandemic and the strengthening of recessions in the global economy, the vectors of foreign trade regulation are acquiring a new context. The desire of governments to strengthen support for the national economy contributes to the transformation of approaches to regulatory policy, including in the field of foreign trade. In view of this, the key trends in the development of international trade and its actors need an in-depth study. Therefore, *the article's objective* is to find effective tools for overcoming difficulties in the process of implementing Ukraine's foreign economic priorities in modern conditions.

**Key findings.** *Theoretical basis of foreign economic strategy*

The theoretical basis for the analysis of Ukraine's foreign economic strategy is the macroeconomic model of a small open economy. The advantages of an open economy are to expand opportunities for interaction with the outside world and use of trade, foreign investments, modern technologies for increasing the national productivity, introduction of new methods of production, industrial design, improvement of market

conditions, in particular, the investment climate, the institutional environment as a whole. At the same time, the openness of the economy implies the creation of adequate fuses to ensure national economic security in all its dimensions: energy, food, financial, technological, environmental, etc.

The starting points of a simple open economy model have the following formalized expression:  $Y = C + I + X - M$ ,

where  $Y$  is national income,  $I$  - investment,  $C$  - consumption,  $X$  - export,  $M$  - import.

After making some transformations, we have:  $Y - C = I + X - M$ . Taking individual positions of a closed economy, such as  $Y = C + I, S = Y - C$  and  $I = S$ , we have an equation that shows the equality of the amount of savings and imports, on the one hand, and the amount of investments and exports, on the other:  $(S + M = I + X)$ , the difference between export and import and the difference between savings and investment ( $X - M = S - I$ ), where  $S$  is savings. Thus, a simplified version of the open economy

model shows that the balance of payments emerges like the difference between domestic savings and domestic investment ( $S - I$ ).

In aggregated form, these processes are embodied in internal and external economic balances. Internal balance means steady economic growth and low unemployment. The external balance is achieved by a positive trade balance, optimal flows of imports and exports of investment resources, and a fixed exchange rate of the national currency.

Macroeconomic equilibrium in a broad sense covers three major sectors of the economy: equilibrium in the commodity market, in which supply of goods and services is equal to their demand; equilibrium in the money market, which means that the quantitative ratios of supply and demand for money in circulation are equivalent; the balance of payments has at least two dimensions. On the one hand, this is the balance of trade, on the other, the movement of capital. In the case of a negative balance in trade in goods, the balance of payments can reach equilibrium due to a positive (adequate) balance in attracting foreign investment.

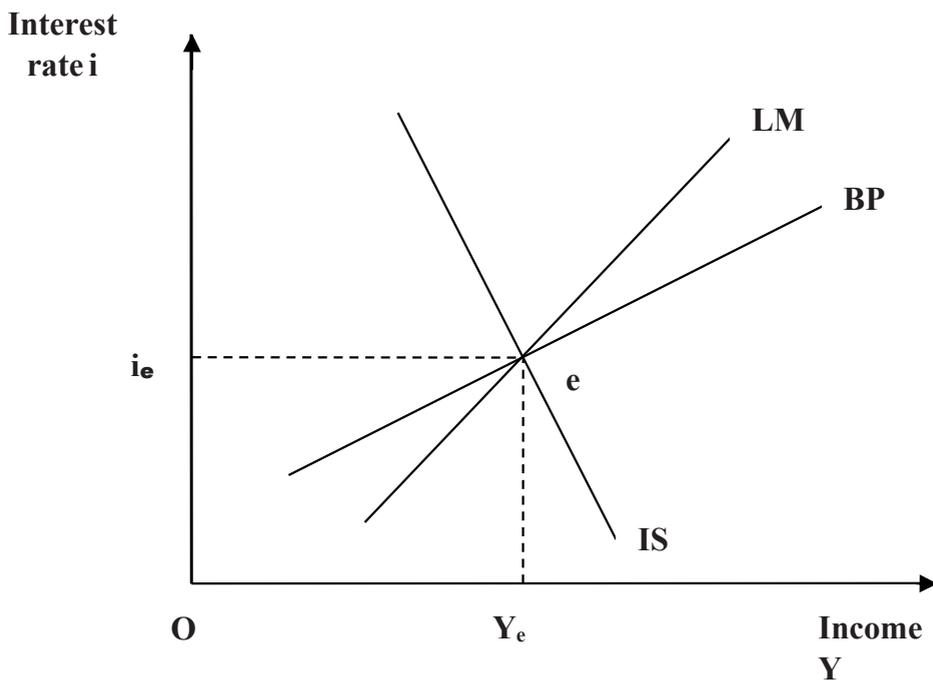


Fig. 1. Equilibrium in the commodity, money markets and balance of payments

Source: [23].

Fig. 1 shows the equilibrium in the markets of goods and services (*IS*), money market (*LM*) and balance of payments (*BP*). As already mentioned, the equilibrium in the commodity market means that the production of goods and services must meet the demand for them, the metaphorical statement in this regard is: «everything that flows into the economy must be equal to that which flows from it». In other words, domestic accumulation (*S*), tax revenue (*T*), and imports (*IM*) equals domestic income presented by investment (*I*), government expenditure

(*G*), and export (*EX*). Thus, the equilibrium in the commodity market (*IS*) will look like this:  $S + T + IM = I + G + EX$ , that is, internal revenues are equal to internal costs.

For foreign economic strategy, the analysis of the balance of payments (*BP*) curve is critical. This curve shows the interaction between the exchange rate (*i*) and GDP (*Y*) that ensures the balance of payments. The *BP* curve is plotted at given domestic prices, exchange rates, and external debt (Figure 2). The state of equilibrium is confirmed in official documents

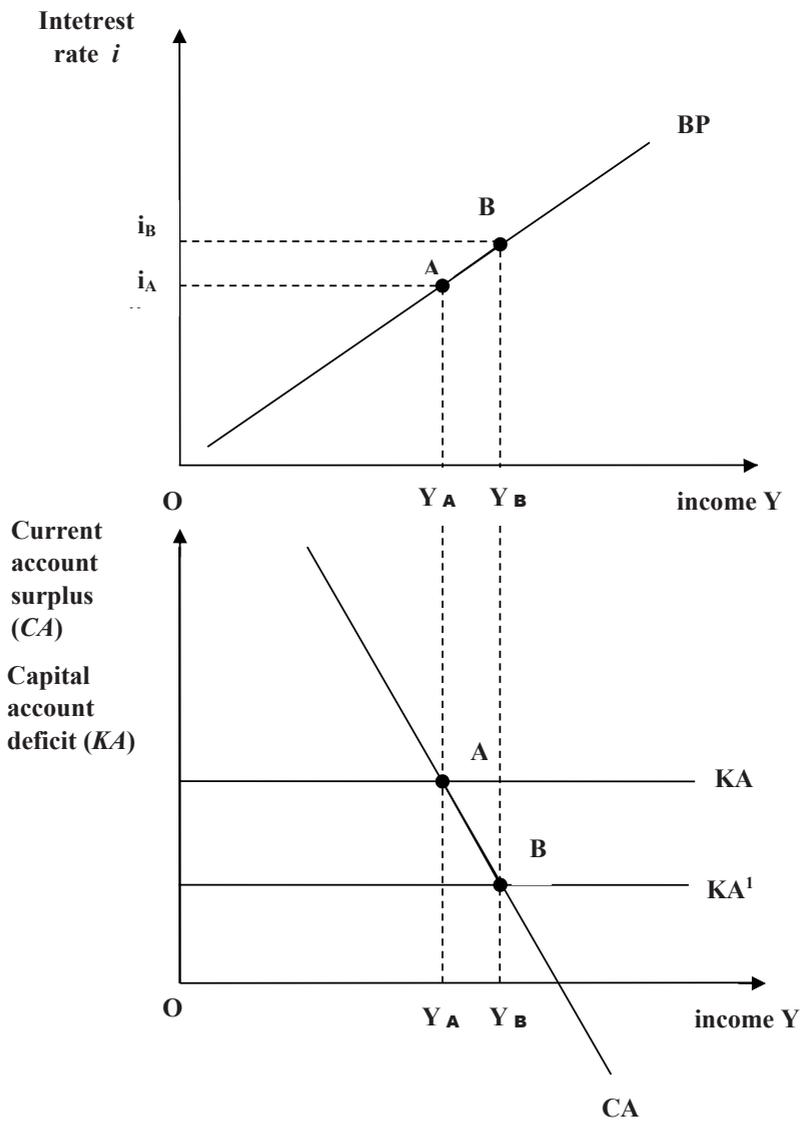


Fig. 2. Construction of the balance of payments curve

by the fact that the balance of payments is 0. This happens, as already noted, when the current account (surplus or deficit) equals the capital account (deficit or surplus).

Figure 2 illustrates the conditions for constructing the balance of payments (BP) curve. The lower part of the figure (CA curve) represents the current account surplus, while the CA curve indicates the capital account deficit. The CA curve is downward as GDP declines, imports contract, and the current account worsens. The capital account is independent of GDP and is determined by the level of the Central Bank's interest rate. Therefore, the KA curve has a horizontal orientation. Equilibrium is reached at point A at the level of income  $UA Y_a$ . However, if the interest rate rises and domestic financial assets become more attractive to foreign investors, the capital account deficit will shrink to  $KA'$ . If the current account surplus exceeds the capital account deficit, GDP rises to  $Y_b$ , which establishes a new equilibrium at point B.

This model makes it possible to identify and evaluate the factors affecting the country's balance of payments and to minimize their role and significance in the implementation of the country's foreign economic strategy. In our opinion, attention should be paid to structural factors (insufficient speed of adjustment of demand for exports and imports), cyclical and seasonal factors, as well as changes in currency regulation, speculative trading and capital flight.

Central banks use many classes of economic models of varying complexity based on data and/or theoretical conclusions. Dynamic stochastic general equilibrium models (DSGE models) are a relatively new and popular class of models [34]. Their theoretical validity makes the models suitable for practical experiments in the field of foreign economic policy and of monetary policy in particular. Many European countries (the Czech Republic, Latvia, Poland, Sweden, Georgia) use various modifications of the model for policy analysis, simulation and forecasting [33].

Recent studies have shown that stochastic general equilibrium models cannot explain the sources of economic resistance causing the downturn and the fact why the economy is not rapidly returning to equilibrium.

For example, Stiglitz believes that although dynamic stochastic general equilibrium models have become dominant in macroeconomics in recent decades, they do not take into the account basic aspects of economic behaviour, such as information and behavioural economics. The most important challenge any model faces is the ability to anticipate a deep recession and make policy recommendations for overcoming it [45].

It should be noted that Ukraine most often resorts to expansionary measures to achieve balance of payments equilibrium, in particular, by stimulating exports through the devaluation of the national currency, which has a temporary effect and does not imply a medium-term equilibrium. Restrictive instruments are also used in the adjustment process, but their impact on the achievement of external economic equilibrium is more lasting.

In general, the consolidated balance of payments was formed with a surplus of USD 2.0 billion in 2020 (USD 6.0 billion in 2019). The formation of a surplus in the consolidated balance sheet together with net borrowings from the IMF (USD 975 million) led to an increase in international reserves up to USD 29.1 billion, which provided financing for following imports for 4.6 months. It should be noted that in 2020, stable demand for raw materials and rising food prices ensured the sustainability of exports to crises. A slight decrease in exports of goods (by 4%) was due to falling metal prices and lower grain yields due to less favourable weather conditions [33], [44].

Despite some improvement in external sustainability indicators in 2020, payments on external commitments remain significant in the coming years. To successfully overcome this period and maintain the sustainability of the economy to external challenges, it is extremely important to pursue a balanced macroeconomic policy and maintain the confidence of foreign investors.

The study on assessing external sustainability examines the key risks for the Ukrainian economy and, on their basis, it is possible to draw conclusions about the main policy instruments for ensuring external economic balance [20]. As can be seen from the table, most of the indicators are outside the limit values.

Table 1

## The dynamics of macroeconomic indicators in Ukraine

	Indicators	2013	2014	2015	2016	2017	2018	2019	Limit values*
1	Total external debt, % of exports of goods and services	173.9	193.0	248.0	246.9	216.8	194.4	192.0	200
2	Total external debt, % of GDP	78.1	94.6	130.4	121.8	102.9	89.9	79.2	60
3	Short-term debt, % of total external debt	41.7	44.8	43.3	41.6	40.2	39.9	39.7	20
4	Short-term external debt, % of exports of goods and services	72.6	86.5	107.3	101.9	86.2	77.5	76.2	40
5	External debt service, % of exports of goods and services	42.4	27.8	58.3	*	65.0	56.7	54.4	25
6	International reserves, % of short-term external debt	34.4	13.3	25.9	33.2	40.6	45.5	52.4	100
7	International reserves, % of the IMF composite criterion	*	*	45.2	56.1	66.1	72.6	85.5	100
8	International reserves, months of imports	2.5	1.3	3.2	3.6	3.6	3.5	4.0	3.8
9	International reserves, % of broad money supply	18.0	12.4	32.1	38.3	43.7	45.1	41.7	20
10	Current account balance, % of GDP	-9.1	-3.4	1.8	-1.4	-2.2	-3.6	-0.9	-2.3
11	Cumulative change rate of UAH REER for 3 years: current and 2 previous ones, % (“+” means revaluation)	-6.0	-28.2	-16.7	-15.5	5.2	10.2	31.8	±11
12	Net international investment position, % of GDP	-36.8	-40.1	-41.7	-37.1	-24.1	-16.8	-13.5	-35

Source: [20].

According to NBU forecasts, the current account deficit is expected to return against the backdrop of a recovery in economic activity, growth in consumer demand, the implementation of deferred investment demand, as well as the resumption of travel in 2021-2022. Worsening trade conditions and a reduction in gas transit will be additional factors for an increase in the current account deficit [33]. NBU experts believe that the recovery of exports (at the level of 3-4%) in 2021-2022 will be primarily ensured by the growing demand for metallurgy and engineering products. In the next two years (2021-2022), imports of goods will grow (by 7-15%) due to an

increase in real incomes and investments against the backdrop of economic recovery.

In general, the NBU notes that high uncertainty and increased turbulence in the global financial and commodity markets due to the pandemic have a neutral impact on the Ukrainian economy.

The coronavirus pandemic has led to a sharp and unexpected downturn in the global economy, a slowdown or cessation of trade ties, an escalation of confrontation between the US and China, and has also become a catalyst for revising the investment and trade policies of major economies, including the EU. Since China, the EU and the United States are strategic and important partners

for Ukraine, it is advisable to analyse the dependence of the country's economy on their macroeconomic balance.

We will empirically study the dependence of the main indicators that characterize economic development in Ukraine on similar indicators of the so-called 'large' economies. The most powerful economies in the world, such as the United States and China, will be considered as systemically important for Ukraine.

The following variables were selected to model these dependencies: percentage changes in gross domestic product and consumer price index compared to the corresponding period of the previous year for the USA (variables  $GDP\_USA$ ,  $CPI\_USA$ ), China (variables  $GDP\_CH$ ,  $CPI\_CH$ ) and Ukraine (variables  $GDP\_UKR$ ,  $CPI\_UKR$ ). The information source for this study is the quarterly data for the 2000-2019 from the IMF International Financial Statistics<sup>2</sup>.

As a research tool, vector autoregressive models were used to explore the dynamic interdependencies between these indicators in the case of explaining their present values in the past.

Thus, the indicators were first checked for the presence of a single root. The test results showed that all the considered indicators were non-stationary (integral first order); except for the percentage change in GDP and the consumer price index in Ukraine (Table 2). Therefore, further studies of increments of these variables were carried out.

Analysis of the results of the Granger test showed the presence of a causal relationship between the indicators, both in the context of the interaction between the United States and China, and the impact on the Ukrainian economy. Thus, in particular, with a lag of 4 quarters, the US and Chinese consumer price indices explain each other, China's and the US consumer price indices affect Ukraine's GDP. With lag 3, China's consumer price index explains changes in Ukraine's GDP, the US consumer price index affects China's GDP, and, finally, China's GDP influences Ukraine's GDP. In turn, with a lag 2, China's

and the US consumer price indices helps to explain Ukraine's GDP, China's GDP affects Ukraine's GDP.

Thus, in the process of empirical research, a vector model of autoregression with four lags was proposed:

$$Y_t = A_0 + A_1 Y_{t-1} + A_2 Y_{t-2} + A_3 Y_{t-3} + A_4 Y_{t-4} + \varepsilon_t,$$

where

$$Y_t = (D(GDP\_CH), D(CPI\_CH), D(GDP\_USA), D(CPI\_USA), D(GDP\_UKR), D(CPI\_UKR))$$

is the vector of endogenous variables,  $D(GDP\_H)$ ,  $D(GDP\_USA)$ ,  $D(GDP\_UKR)$  are differences of endogenous model variables,  $A_0$  is the vector of constants,  $A_j$  are 6x6 matrices of coefficients ( $j=\overline{1,4}$ ),  $\varepsilon_t$  is the disturbance vector.

The number of lags or the order of the constructed vector model of autoregression was determined based on minimising information criteria.

Impulse-response functions from 'large' economies show the dependence of indicators that characterise economic development in Ukraine, from them and their long-term absorption (Fig. 3), both in the context of economic growth in these countries and inflation imports from abroad. Moreover, it should be noted that the influence of China is more significant than that of the United States, especially if we consider the impact of fluctuations in the consumer price index in China on economic growth and inflation in Ukraine. The impact of economic growth in the United States and China on Ukraine's GDP fluctuations is positive and almost the same (peaking in the second quarter and gradual levelling over two years).

In turn, the variance decomposition of Ukraine's GDP forecast errors shows that in the long term, about 52% of its variability is due to modeled external factors (Fig. 4), which, in our opinion, is due to the significant openness of the Ukrainian economy and, therefore, "large" economies.

Thus, the formation and implementation of Ukraine's international economic policy requires a thorough study and evaluation of international economic policy of major

<sup>2</sup> www.elibrary-data.imf.org

Table 2

## Results of testing variables for stationarity

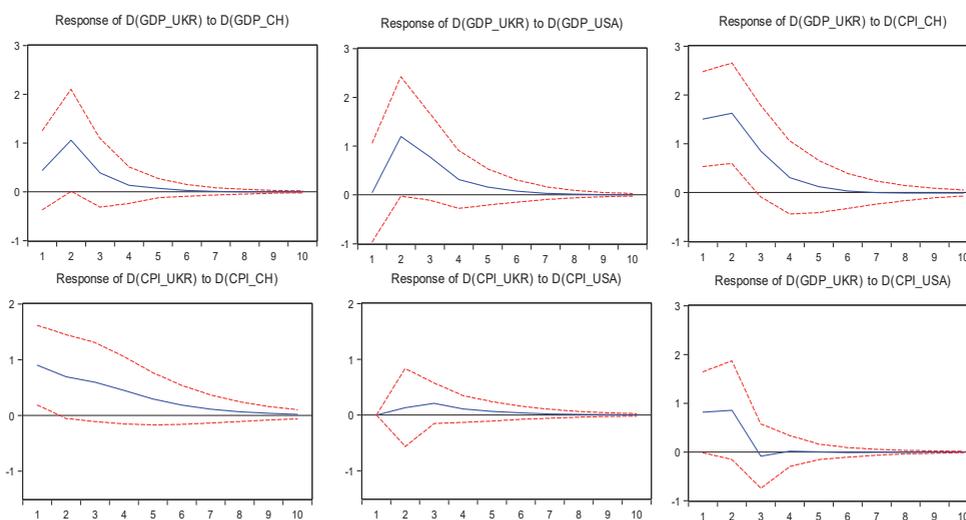
	Augmented Dickey Fuller test statistic	Phillips-Perron test statistic	Kwiatkowski-Phillips-Schmidt-Shin test statistic
<b>GDP_CH</b>			
Level	-2.333993	-2.333993	0.200885
1 <sup>st</sup> differences	-7.601803*	-7.651055*	0.041485
<b>CPI_CH</b>			
Level	-2.166343	-3.096652	0.147014
1 <sup>st</sup> differences	-6.773191*	-5.226848*	0.025144
<b>GDP_USA</b>			
Level	-1.859536	-2.879519	0.156892
1 <sup>st</sup> differences	-7.371684	-7.381724*	0.024696
<b>CPI_USA</b>			
Level	-3.127086**	-3.501234	0.438531
1 <sup>st</sup> differences	-4.421113*	-6.902785*	0.040224
<b>GDP_UKR</b>			
Level	-3.855339**	-3.506533**	0.125037
1 <sup>st</sup> differences	-6.669333*	-5.823984*	0.037045
<b>CPI_UKR</b>			
Level	-4.097565*	-2.874324***	0.084404
1 <sup>st</sup> differences	-4.868208*	-4.868208*	0.045048

\* significance at 1%

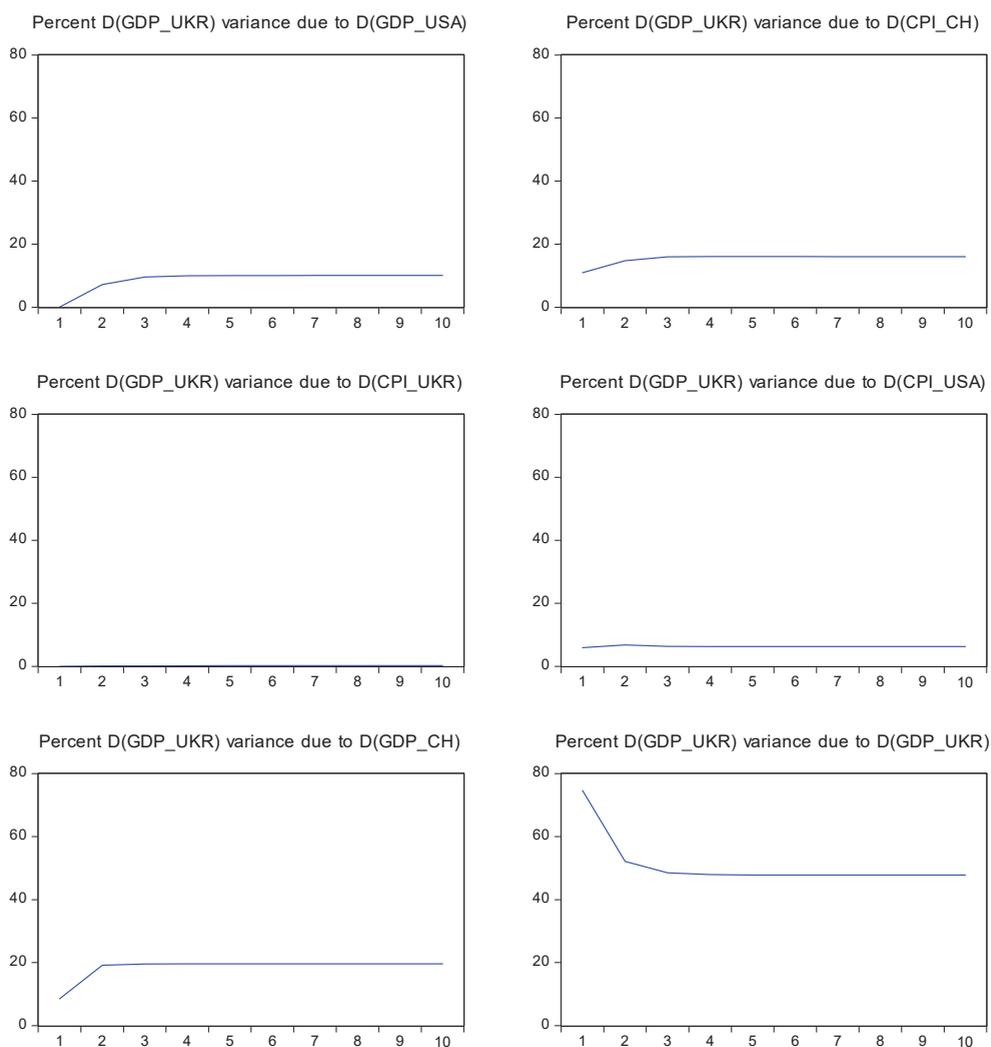
\*\* significance at 5%

\*\*\* significance at 10%

Source: developed by authors

Fig. 3. Impulse-response function in variables  $D(GDP\_USA)$ ,  $D(GDP\_CH)$ ,  $D(CPI\_USA)$ ,  $D(CPI\_CH)$ 

Source: developed by authors



**Fig.4. Variance decomposition of forecast errors for variable  $D(GDP\_UKR)$**

*Source:* developed by authors

centres of the world economy to minimise risks exacerbated by competition between them, taking into account Ukraine's European integration aspirations.

The state of world trade and geoeconomic priorities of leading countries

Ukraine is shaping its foreign economic strategy in the context of a complex transformation of the liberal world order. This transformation involves a rethinking of the world's leading states of their priorities, the conceptual foundations of interstate cooperation; completing the transition to a multipolar world under global uncertainty

and unpredictability. Therefore, when defining Ukraine's foreign economic priorities, it is essential to understand those global trends, processes and crises that determine the current state of international economic relations and will affect them in the medium term.

Competition between the United States and China for global leadership has intensified in recent years. International competition is intensifying with the use of all instruments of economic power – economic, information, digital, political and diplomatic, military, cyber ones, etc. Its consequences

are manifested in Eastern Europe, the Middle East and North Africa, Southeast Asia, the Arctic and other regions. This affects all forms of international economic relations, especially trade and capital movements.

The American professor K. Rogoff noted that the global recession of 2020 is different from those that began in 2001 and 2008. With the closure of the economic borders of individual countries, the reduction of international trade and the disruption of global value chains (which is already happening under the influence of the epidemic), a shock supply reduction will become the driver of the global recession. This particular fact will distinguish it from previous crises that unfolded against the backdrop of a demand shock (Rogoff, 2020).

Although WTO estimates showed that global merchandise trade fell by 5.3% in 2020, this is well below the 9.2% decline forecast in October 2020 due to the easing of restrictions in the second half of the year and the imposition of tough measures to overcome impact of the COVID-19 pandemic on governments around the world. According to WTO estimates, global merchandise trade is expected to grow by 8.0% in 2021 and 4% in 2022. Thus, total global trade will remain below its pre-pandemic trend (WTO, 2021a).

The relatively positive short-term outlook for world trade may be exacerbated by regional disparities, persistent weakness in trade in services, and lagging vaccination schedules, especially in the least developed countries. The coronavirus continues to pose the greatest threat to trade prospects, as new waves of infection can easily undermine any hope of improving the situation.

The risks of the short-term forecast are significantly reduced and concentrated on factors associated with the pandemic. These include insufficient vaccine production and distribution or the emergence of new vaccine-resistant coronavirus strains. In the medium to long term, public debt and deficits may also affect economic growth and trade, especially in developing countries with significant debt.

Taking into account these factors, the WTO has developed two alternative scenarios

for the dynamics of world trade in goods (optimistic and pessimistic). In a positive scenario, vaccine production and distribution will accelerate, allowing containment to ease more quickly. This is expected to add about 1 percentage point to global GDP growth and about 2.5 percentage points to global merchandise trade growth in 2021. Trade will return to its pre-pandemic trend by the fourth quarter of 2021. production has not kept up with demand and/or new variants of the virus are emerging for which vaccines are less effective. Such an outcome could cut global GDP growth by 1 percentage point in 2021 and reduce trade growth by nearly 2 percentage points.

The epidemic has changed the balance of power in the world due to the different outcomes of the actions of leading and other countries to address the challenges caused by the virus. In their study, WEF experts confirmed this point of view in a special issue of the Global Competitiveness Report 2020. According to their estimates, the epidemic has affected all countries and the global economy as a whole, and its consequences will be felt for many years to come. come. Tourism, transport, energy and international trade have been hit the hardest, as well as countries closely associated with these sectors.

At the same time, countries that have best managed the crisis had sound governments, high-tech and advanced digital economies and digital skills, a high level of investment attractiveness, an efficient service sector, a strong health systems and existing experience in combating epidemics.

Taking into account these and other factors, the report offers ways of post-crisis recovery that include four main areas, namely:

- provision of a favorable environment and stimulation of economic development. To this end, governments should strive to ensure greater digitization, improve public service delivery mechanisms and ensure more effective deleveraging;

- the revival and transformation of human capital, in particular the expansion of retraining and advanced training programs,

Table 3

## Dynamics of the volume of world merchandise trade by regions, 2017-2022, %

	2017	2018	2019	2020	2021*	2022*
Volume of world merchandise trade	4.9	3.2	0.2	-5.3	8.0	4.0
Exports						
North America	3.4	3.8	0.3	-8.5	7.7	5.1
South and Central America	2.3	0.0	-2.2	-4.5	3.2	2.7
Europe	4.1	1.9	0.6	-8.0	8.3	3.9
CIS**	3.9	4.1	-0.3	-3.9	4.4	1.9
Africa	4.7	2.7	-0.5	-8.1	8.1	3.0
Middle East	-2.1	4.7	-2.5	-8.2	12.4	5.0
Asia	6.7	3.8	0.8	0.3	8.4	3.5
Imports						
North America	4.4	5.1	-0.6	-6.1	11.4	4.9
South and Central America	4.5	5.4	-2.6	-9.3	8.1	3.7
Europe	3.9	1.9	0.3	-7.6	8.4	3.7
CIS**	14.0	4.1	8.5	-4.7	5.7	2.7
Africa	-1.7	5.4	2.6	-8.8	5.5	4.0
Middle East	1.1	-4.1	0.8	-11.3	7.2	4.5
Asia	8.4	5.0	-0.5	-1.3	5.7	4.4

\* WTO forecast

\*\* Including former member States.

Source: [57].

as well as the creation of social protection systems capable of stimulating the economy;

- improvement the terms of world trade. The report stresses on the need to reinforce international financial systems, stimulate investment, rethink competition laws and anti-trust frameworks, however, the movement of goods and labour should not be hindered;

- wider introduction of innovations in all areas of economic activity. This requires expanding public investments in R&D, incentivising venture capital and R&D in private sector, and promoting creativity and competitiveness (World economic forum, 2020).

In addition, WEF experts analysed the prospects of different countries to overcome

the crisis and move to positive economic development and concluded that China, the United States and the G7 had the most potential for that.

WEF estimates and forecasts regarding the economic situation in the world, as well as recommendations for overcoming the consequences of epidemics and other crises, are relevant for Ukraine, which is fully integrated into the world economic system. This is all the more relevant as most of the above-mentioned challenges are characteristic of our country. At the same time, compared to the world's leading countries and even its neighbours from Central and Eastern Europe, Ukraine has fewer opportunities to address these issues, as evidenced by WEF ratings.

In addition, a study by the British Center for Economic and Business Research (CEBR) states that due to the epidemic of COVID-19, the United States is rapidly losing its global leadership, and China is claiming the position of the most powerful economy. In particular, by 2028, China may overtake the United States in terms of GDP (at the end of 2020, the GDP of the United States was \$20.8 trillion, and China's was \$14.8 trillion). As for Ukraine, according to experts, the country's GDP growth rate over the next 10 years will be 3.5%, and our

economy will enter the top 50 according to the center's ratings in 2035.

The United States is beginning to give way to China. According to the WTO, China is currently the main partner for 124 countries, while the United States – for 56. Accordingly, China occupies 20% of the world market, and the US - 17%. At the same time, China has a positive foreign trade balance with the United States (Table 5) and is the main and leading creditor of the American economy, which makes the United States dependent on its decisions in the debt securities market [20].

Table 4

The dynamics and forecasts of GDP in the US and China

China	2005	2010	2019	2020	2021	2025	2030	2035
GDP, local currency bn (constant prices)	27,734	47,373	89,583	91,242	98,085	120,591	150,449	181,894
GDP, USD bn (constant prices)	2,822	6,762	13,817	14,059	15,162	19,391	26,365	34,919
GDP, USD bn (current prices)	2,290	6,034	14,402	14,861	16,380	22,556	33,718	49,108
Rank	5	2	2	2	2	2	1	1

United States	2005	2010	2019	2020	2021	2025	2030	2035
GDP, local currency bn (constant prices)	14,913	15,599	19,092	18,276	19,007	20,449	22,116	23,920
GDP, USD bn (constant prices)	16,062	16,801	20,564	19,685	20,473	22,026	23,822	25,764
GDP, USD bn (current prices)	13,037	14,992	21,433	20,807	22,118	25,621	30,466	36,233
Rank	1	1	1	1	1	1	2	2

Source: [55].

### China's positioning: self-sufficiency or expansion

China's strategy of international economic leadership and openness is closely linked to the country's modernisation strategy that began in the early 1980s. China's success in international trade was laid down at an early stage in the introduction of economic reforms and openness of the Chinese economy.

The current model of China's economic development is undergoing a seismic shift:

a consumption and innovation model is now replacing the model of growth, which envisaged significant investment and was grounded in exports. Balancing the external and domestic needs for China's economic development was the basis for highlighting the key objectives of the 13th Five-Year Plan (2016-2020) and all its international economic policy.

The transformation of the economy, scientific growth, and the evolution of social relations are placed in the foreground and in

Table 5

## Foreign trade of the United States with China (USD, bln)

Year	USA exports	USA Imports	USA trade balance
1980	3.8	1.1	2.7
1990	4.8	15.2	-10.4
2000	16.3	100.1	-83.8
2010	91.9	365.0	-273.0
2015	115.9	483.2	-367.3
2017	130.4	505.6	-375.2
2020	134.9	451.8	-316.9

Source: United States International Trade Commission (USITC) DataWeb (2021). Retrieved February 4, 2021, from: <https://dataweb.usitc.gov/>

the center. This is fully in line with the “Made in China 2025 strategy”, which sets priorities for 2015-2025. The first stage, namely becoming an “industrial state”, has been completed. The next stages involve growing into one of the world’s innovative leaders through innovation, developing one’s own scientific and technical base, transforming society, and reforming education. The same provisions are outlined in the 14th five-year plan. The second phase of the “Made in China 2025” program and the implementation of the five-year plan began in 2021.

Xi Jinping describes China’s future policy as a policy of building ‘a human community with a shared future’. China has finally announced that the Belt and Road Initiative is conceived as a civilization project, not just an economic one. His aim is to build a new type of international relations by offering his version of politics to focus on mutual benefits instead of zero-sum games popular among European and American politicians. At the same time, he speaks about opposing hegemony and power politics: ‘Anyone who would attempt to do so will find themselves on a collision course with a great wall of steel forged by over 1.4 billion Chinese people [58].

The strategy aims to establish a multipolar world order, on the one hand, and to create a pool of countries that are friendly or neutral to China’s rise, on the other.

In recent years, Beijing:

- has actively invested in the countries of Eurasia, using the tools of the Belt and

Road Initiative. Special focus was put on the countries of Southeast and Central Asia, Russia and Belarus;

- has signed the Regional Comprehensive Economic Partnership with Asian countries – RCEP, free trade agreement, opening its market to Asian countries;

- has developed economic relations with the EU, becoming the largest trading partner of the European Union in 2020. It signed the Comprehensive Agreement on Investment with the Union, theoretically opening the Chinese market for European business. However, the agreement has not been ratified by the European Parliament;

- has significantly increased the flow of investment abroad; the Middle East and Central Asia have contributed the most in terms of receiving the financing;

- has strengthened regional influence by giving special status to relations with neighbouring countries, including support for economic recovery and combating the pandemic.

In 2018, the Office of the United States Trade Representative published the Review of Trade Policy of China [49] that focused on ‘unfair’ Chinese practices, restrictions of the activities of foreign companies, including the US ones, special requirements for establishing joint ventures. According to these estimates, the US Department of Commerce has developed a Strategic Plan for the implementation of the country’s foreign trade policy until 2022. Among its main tasks are:

- Acceleration of American Leadership
- Strengthening of Economic Security
- Growth of Economy and Foreign Trade
- Enhancement of Job Creation [48].

In addition, attention should be paid to innovations in the field of export control. In accordance with the Export Control Reform Act adopted in 2020, new approaches to regulating access to American products and technologies have been defined, in particular regarding the transfer, export and re-export of technologies; clarification of the concepts of “critical technologies”, “new technologies” (ECRA, 2021).

Evaluating US cooperation in the international arena, attention should be paid to the established US-EU Trade and Technology Council, which agreed on common principles for renewing the rules of the 21st century economy (European Commission, 2021c):

- Global trade challenges and addressing non-market practices
- Supply chains in semiconductors
- Investment screening
- Export controls
- Artificial intelligence

Comparing the strategies of China and the United States, we can conclude that the confrontation between them is not only in the difference between their systems and strategies, but in the growing similarity. Previously, countries acted as ‘yin’ and ‘yang’ in world trade: the US being a consumer and China being a producer of goods. Today there are two competing teams.

### **Ukraine’s world economic relations system**

In terms of the level of involvement in the international division of labor, Ukraine is included in the leading group of countries in the world with exports exceeding half of the gross domestic product. The geography of foreign economic relations of Ukraine covers all continents and regions of the world. Our state cooperates with the largest economic and financial organizations and institutions, is a member of a number of regional economic associations, which reflects the nature of foreign economic policy.

At the end of 2020, the value of Ukraine’s foreign trade in goods decreased by 6.4% compared to 2019. The decrease was mainly due to a decrease in imports of goods by 10.3%, while their exports decreased by 1.7%. To some extent, the decrease in the value of trade was due to the prevailing downward trend in prices for the main goods of Ukraine’s foreign trade, as physical volumes decreased by 4.7% in 2020.

The higher rate of decline in imports of goods than their exports led to a reduction in the negative balance of foreign trade by more than half. If the negative balance in 2019 was \$10.4 billion, then over the same period in 2020 it decreased to \$5 billion (Table 5). In addition, the export-import coverage ratio increased from 0.83 in 2019 to 0.91 in 2020 [33].

Exports of goods in 2020 decreased by \$0.8 billion compared to 2019 and amounted to \$49.2 billion. In many respects, the decrease in 2020 was due to a decrease in income from the export of metals and metal products. Thus, the supply of goods of this group decreased by 1.2 billion US dollars, which is 11.7% less than a year earlier. The export of fuel and energy goods also decreased (by USD 307 million or 35.6%), machinery, equipment and transport (by USD 98 million or 1.8%).

Imports of goods in 2020 decreased by USD 6.2 billion compared to 2019 and amounted to USD 54.2 billion.

Thus, the economy of Ukraine is an organic component of the modern world economy, the system of international division of labor. This makes it possible to use additional opportunities and resources to deepen market reforms, accelerate social and economic development, and realize national economic interests in the international environment.

The foreign economic strategy of Ukraine at this stage should be subordinated to the solution of important tasks aimed at deepening systemic market reforms, giving them a holistic, balanced, complete character. This will ensure the necessary rates of economic growth, carry out long overdue structural reforms, create a modern

market infrastructure, increase the efficiency of export-import operations and expand the contribution of the foreign economic complex to the growth of the gross national product.

### **Strategic foreign economic priorities for 2030**

The relaunch of the export strategy and specific programs and targeted support instruments within its framework is an obvious and necessary step given the geopolitical and economic stance of our country. The rise of national protectionism in the world began long before COVID-19, but the pandemic provoked a global crisis and greatly intensified these processes. Indeed, there are new threats to Ukrainian exports in this.

The problem of strategic choice is related to the need to clarify in advance the criteria that determine the feasibility of the state strategy. According to one of the best experts on strategic planning, American Professor R. Rummelt, 'strategy is the craft of figuring out which purposes are both worth pursuing and capable of being accomplished'. The author believes that the kernel of a strategy contains three elements: a diagnosis, a guiding policy, and coherent action. A professional diagnosis indicates the critical elements and areas of action to be taken. Strategic diagnosis differs from comprehensive analysis in that it not only explains the essence of the problems, but also indicates the approach to solving them and allows you to develop a 'guiding policy' aimed at achieving the relevant objectives. Then it is time to take coherent actions [41].

Thus, the main difference between strategy development and analysis of the current state of the global economy is the focus on active intervention in present circumstances. In other words, a precondition for the establishment of a strategy for the country's participation in the global economy is its actual ability to influence endogenous and exogenous factors of globalisation.

At the same time, the regionalisation of international trade has created new opportunities for Ukraine, primarily positioning our country as a manufacturing and technological hub of the European Union.

The key task in the field of trade for the next two years is the conclusion of an agreement with the EU on an "industrial visa-free regime". In the field of sectoral integration, a new priority for our cooperation will be the involvement of Ukraine in the implementation of the European Green Deal.

The European Green Deal (EGD) is a global process that includes international trade and international supply chains for 'green' goods. At the same time, domestic small and medium-sized businesses have limited opportunities and little experience in the field of international trade. In this context, we need to boost cooperation with the EU to strengthen the capacity of our SMEs. It should also be noted that focusing of the EU agricultural policy on food security and reducing the impact of agriculture on the environment would have a drastic effect on imposing stricter requirements to Ukrainian food exporters by the EU Member States.

Indeed, this is a challenge for Ukraine, namely for its agricultural exporters. In this regard, there is an urgent need to bring the agricultural sector in line with EU requirements.

In addition to organic production, Ukraine, as one of the leading IT countries, focuses on smart agriculture. We need to start cooperation with the EU in this area and involve Ukrainian IT companies in the development appropriate IT platforms and providing them to farms. This direction corresponds to Ukraine's approximation to the EU environmental legislation. By doing this, we will ensure that agricultural products comply with EU environmental requirements. As a result, traditional Ukrainian exports will remain in demand on the EU market.

### **Conclusions from this study and prospects for further exploration in this direction**

Ukraine is a small open economy that makes extensive use of external factors of economic development both in the context of markets for its products, especially the agricultural sector, and attracting important resources of critical imports, including oil and natural gas, electronic equipment and more. From this point of view, the analysis

has revealed the role and importance of two key players in the world market – the United States and China – in ensuring Ukraine’s external economic balance. Impulse-response functions from the ‘large’ economies show the dependence of indicators that describe economic development in Ukraine, both in terms of the impact of economic growth in these countries and of imports of inflation from abroad. Moreover, it should be noted that the influence of China is more significant

than that of the United States, especially if we consider the impact of fluctuations in the consumer price index in China on economic growth and inflation in Ukraine. The economic growth of the United States and China influences fluctuations in Ukraine’s GDP positively and nearly in the same manner. This necessitates further research on this issue in line with the formation of scientifically sound foreign economic strategy and policy of Ukraine.

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## FOREIGN ECONOMIC STRATEGIC PRIORITIES OF UKRAINE

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The paper is devoted to the analysis of modern foreign economic strategic priorities of Ukraine, features of their implementation in the context of the key purposes of economic development of the country. Emphasis is placed on the need to use modern tools to support domestic producers and limit import expansion in the context of the formation of a new export strategy of Ukraine. Ukraine is a small open economy that makes extensive use of external factors of economic development both in the context of markets for its products, especially the agricultural sector, and attracting important resources of critical imports, including oil and natural gas, electronic equipment and more. From this point of view,

the analysis has revealed the role and importance of two key players in the world market – the United States and China – in ensuring Ukraine’s external economic balance. The paper empirically examines the dependence of certain macroeconomic indicators of Ukraine on similar indicators of the United States and China (the so-called ‘large’ and systemically important economies for Ukraine). Vector autoregression models were used as a research tool to explore the dynamic interdependencies between macroeconomic indicators in the case of explaining their present values by the previous ones. For this purpose, percentage changes in gross domestic product and consumer price index compared to the corresponding period of the previous year for the USA, China and Ukraine were selected. As a result of the research, impulse-response functions from ‘large’ economies showed the dependence of indicators that characterise economic development in Ukraine from them and their long-term absorption, both in the context of economic growth in these countries and inflation imports from abroad. Moreover, it should be noted that the influence of China is more significant than that of the United States, especially if we consider the impact of fluctuations in the consumer price index in China on economic growth and inflation in Ukraine. This necessitates further research on this issue in line with the formation of scientifically sound foreign economic strategy and policy of Ukraine. The impact of economic growth in the United States and China on Ukraine’s GDP fluctuations is positive and almost the same (peaking in the second quarter and gradual levelling over two years). In turn, the variance decomposition of forecast errors for Ukraine’s GDP shows that in the long run about 52% of its variability result from modelled external factors, which in our opinion is due to significant openness of Ukraine’s economy and, consequently, ‘large’ economies. Finally, paper emphasizes the need to assess their international economic policy to minimize risks in the implementation of the country’s foreign economic strategy.

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