

DIVERSIFICATION OF THE STRUCTURE OF EXPORT ACTIVITIES UNDER CONDITIONS OF ECONOMIC CRISIS AND LOSS OF FOREIGN MARKETS

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Havrylchenko O. V. Diversification of the Structure of Export Activities Under Conditions of Economic Crisis and Loss of Foreign Markets

The article is aimed at analyzing the theoretical and methodological approaches to diversification of Ukrainian exports under conditions of economic crisis and loss of foreign markets. The essence and reasons for export diversification are considered, the structure and tendencies of development of national exports are explored. The carried out analysis of the structure and dynamics of Ukrainian exports showed the need to diversify Ukraine's products with the purpose to gradually turn into a State with an innovative knowledge-intensive economy. This will help to restore economic growth and achieve a certain level of competitiveness. According to the results of the analysis, a large diversification of Ukrainian exports due to the gradual decrease in Ukraine's focus on the CIS markets and, in particular, on the Russian market, is specified. Ukraine for now insufficiently uses trade opportunities with countries such as the United States, Germany, Great Britain, France, Japan and Canada. In general, the State underutilizes the trade potential with 75 world countries and thus underreceives about 6 billion US dollars. It is substantiated that in the conditions of economic crisis and loss of external markets it is advisable to use the opportunities of innovative and inertial directions of diversification. A methodology for evaluating export diversification at the regional and enterprise level is proposed, which should become the basis for determining methods of diversification and identifying measures aimed at optimizing the commodity structure of exports. Understanding the main stages of export diversification of enterprise is an important condition for its further implementation.

Keywords: diversification, exports, export diversification, export structure, evaluation of export diversification, export potential.

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Гаврильченко О. В. Диверсифікація структури експортної діяльності в умовах економічної кризи та втрати зовнішніх ринків збуту

Метою статті є аналіз теоретичних і методологічних підходів до диверсифікації українського експорту в умовах економічної кризи та втрати зовнішніх ринків збуту. Розглянуто сутність та причини диверсифікації експорту, досліджено структуру та тенденції розвитку вітчизняного експорту. Проведений аналіз структури та динаміки українського експорту засвідчив необхідність диверсифікації продукції України, яка має на меті поступове перетворення на державу з інноваційною наукомісткою економікою. Це дозволить відновити економічне зростання та досягти певного рівня конкурентоспроможності. За результатами аналізу відмічена більша диверсифікованість українського експорту через поступове зменшення орієнтованості України на ринки країн СНД і, зокрема, на російський ринок. Україна наразі недостатньо використовує торговельні можливості з такими країнами, як Сполучені Штати Америки, Німеччина, Велика Британія, Франція, Японія та Канада. Зазалом, держава недовикористовує торговельний потенціал із 75 країнами світу і недоотримує, таким чином, близько 6 млрд дол. США. Обґрунтовано, що в умовах економічної кризи та втрати зовнішніх ринків збуту доцільно використовувати можливості інноваційного та інерційного напрямів диверсифікації. Запропоновано методик оцінювання експортної диверсифікації на рівні регіону та підприємства, яка повинна стати основою при визначенні методів диверсифікації та виявлення заходів, спрямованих на оптимізацію товарної структури експорту. Розуміння основних етапів здійснення експортної диверсифікації підприємства є важливою умовою її подальшої реалізації.

Ключові слова: диверсифікація, експорт, експортна диверсифікація, структура експорту, оцінювання експортної диверсифікації, експортний потенціал.

Рис.: 5. **Табл.:** 1. **Бібл.:** 13.

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Гаврильченко Е. В. Диверсификация структуры экспортной деятельности в условиях экономического кризиса и потери внешних рынков сбыта

Целью статьи является анализ теоретических и методологических подходов к диверсификации украинского экспорта в условиях экономического кризиса и потери внешних рынков сбыта. Рассмотрены сущность и причины диверсификации экспорта, исследована структура и тенденции развития отечественного экспорта. Проведенный анализ структуры и динамики украинского экспорта показал необходимость диверсификации продукции Украины, целью которой является постепенное превращение в государство с инновационной наукоёмкой экономикой. Это позволит восстановить экономический рост и достичь определенного уровня конкурентоспособности. По результатам анализа отмечена большая диверсификация украинского экспорта из-за постепенного уменьшения ориентированности Украины на рынки стран СНГ и, в частности, на российский рынок. Украина пока недостаточно использует торговые возможности с такими странами, как США, Германия, Великобритания, Франция, Япония и Канада. В целом государство недоиспользует торговый потенциал с 75 странами мира и недополучает, таким образом, около 6 млрд долл. США. Обосновано, что в условиях экономического кризиса и потери внешних рынков сбыта целесообразно использовать возможности инновационного и инерционного направлений диверсификации. Предложена методика оценки экспортной диверсификации на уровне региона и предприятия, которая должна стать основой при определении методов диверсификации и выявления мер, направленных на оптимизацию товарной структуры экспорта. Понимание основных этапов осуществления экспортной диверсификации предприятия является важным условием её дальнейшей реализации.

Ключевые слова: диверсификация, экспорт, экспортная диверсификация, структура экспорта, оценка экспортной диверсификации, экспортный потенциал.

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The deterioration of political and economic relations between Ukraine and Russia and the suspension of the Free Trade Agreement with Ukraine by the Russian Federation have negatively affected the volume of exports and the size of the country's gross domestic product.

The loss of the Russian market is a serious problem for export-oriented Ukrainian producers, especially in those sectors that are largely dependent on demand from the Russian Federation, e.g., machine building [1]. A greater diversification of Ukrainian exports due to a gradual decrease in Ukraine's orientation to the markets of CIS countries and, in particular, to the Russian market, is observed.

Works of a number of scientists, namely, V. M. Der-eza, O. M. Romashko, T. V. Goryanska, O. I. Shnyrkov, A. V. Kovalev, deal with investigations in this area. The aggravation of the economic crisis as well as the loss of foreign sales markets, characteristic of the current state of the national economy, require further research in this direction.

The aim of the article is to analyze theoretical and methodological approaches to diversify Ukrainian exports under conditions of economic crisis and loss of foreign markets.

The existence of different forms and levels of diversification necessitate studying this economic category (Fig. 1) [2–6].

To evaluate export diversification, it is necessary to analyze the structure and dynamics of Ukrainian exports.

According to the World Bank's Special Focus Note on foreign trade, metals and grain dominate the structure of Ukraine export, but in the last decade the focus is shifting from energy-intensive metals to agricultural products [7].

The share of energy-intensive export products – cast iron and steel – has decreased due to changes in prices for imported energy carriers. Over the last two decades, economic transformations in Ukraine have been hindered by low energy tariffs inherited from past times,

which brought gains to individual sectors in the short term but did not allow to carry out a much-needed industrial restructuring.

The Ukrainian iron and steel industry remains highly energy-intensive: about a quarter of the total output is produced in open-hearth furnaces that have been obsoleted by manufacturers in many countries of the world. Secondly, nature-intensive goods – primarily agricultural products, which account for more than half of the value of export products – have become an important component of Ukraine exports. Thirdly, the share of capital-intensive exports continues declining. Due to insufficient investment, the share of capital-intensive export products decreased in 2017 to a level that barely exceeds 16%. And finally, the share of labor-intensive products – which is the vastest resource that Ukraine has being one of the largest countries in Europe – remains very low.

In August 2018, exports amounted to USD3.7 billion. Its growth was due to an increase in all main commodity groups: food products (including grain) – by 6.5% (in July – by 8.0%); base metals and articles of base metals – by 11.2% (in July – by 19.9 %); mineral products (including ore) – by 28.0% (in July – by 25.8%); wood and articles of wood – by 17.9% (in July – by 16.5%); machinery and mechanical appliances – by 12.1% (in July it reduced by 7.1%); production of or allied industries – by 7.3% (in July – by 21.1%) (Fig. 2) [8].

According to the National Bank of Ukraine, the export of goods in the 2nd quarter of 2019 amounted to USD11.2 billion. A growth occurred in the following main groups: food products – by 15.1%; mineral products (including ores) – by 30.7%; machinery and mechanical appliances – by 7.3%. At the same time, a decrease was observed in exports of base metals and articles of base metals – by 14.3%; products of the chemical or allied industries – by 13.6%; wood and articles of wood – by 8.8%. Geographically, the largest increase in nominal terms was observed in the exports of goods to EU countries (by USD419 million or 11.3%), their share

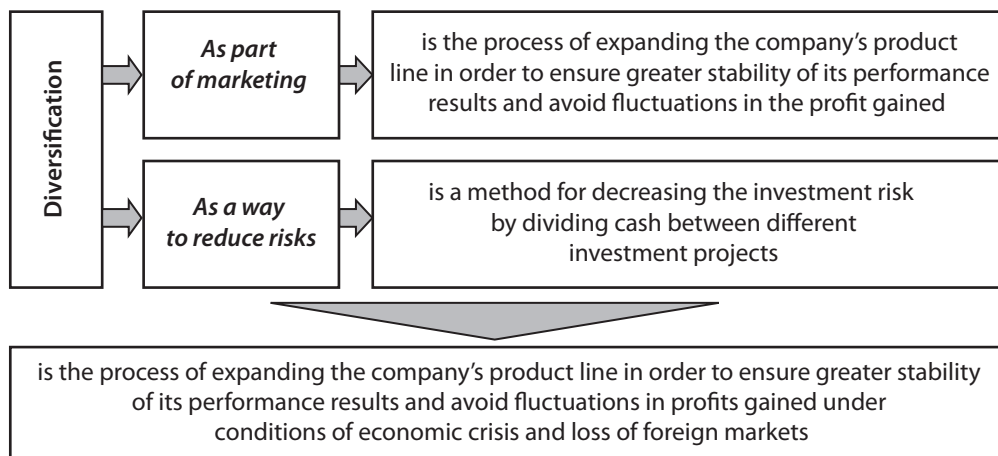


Fig. 1. Economic essence of diversification

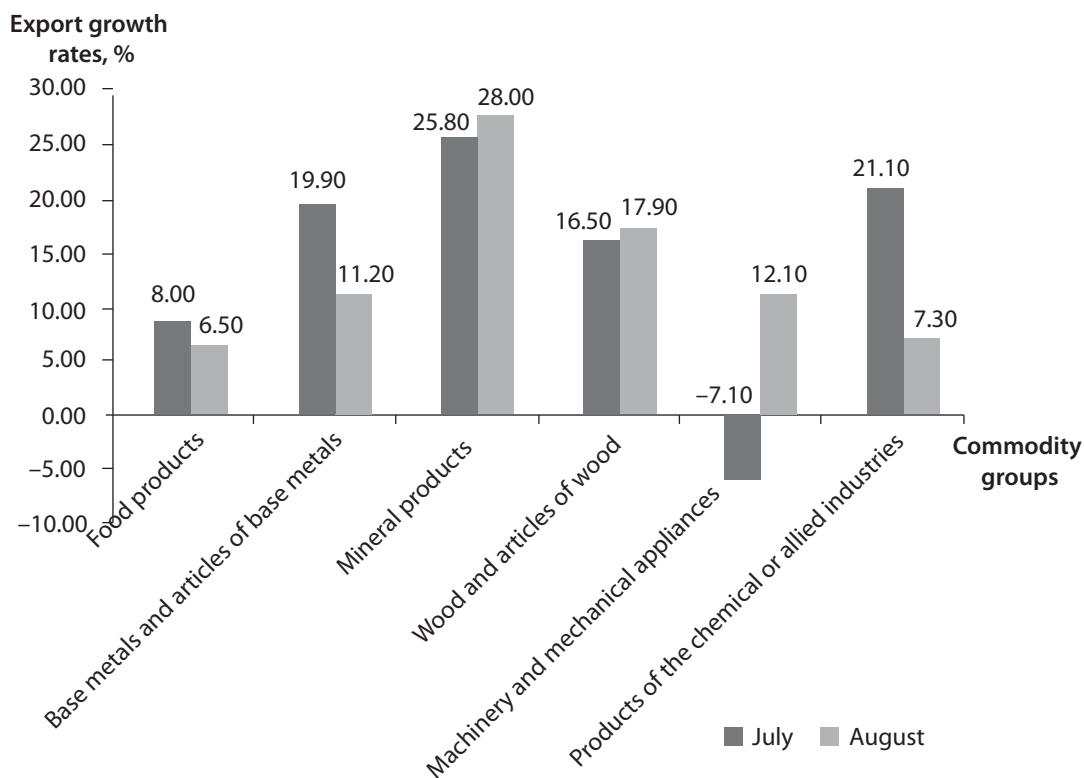


Fig. 2. Export growth rates by main commodity groups (July – August 2018)

in total exports increased to 36.8% (from 34.4% in the 2nd quarter of 2018). The exports to African countries increased by USD141 million or 13.3%, their share grew to 10.8% (from 9.9% in the 2nd quarter of 2018). Exports to Russia decreased by USD133 million or 16.3%. The share of Russia decreased to 6.1% (from 7.6% in the 2nd quarter of 2018) [9].

The analysis of the structure of and trends in Ukraine exports showed their low diversification. This is the most significant problem for the domestic economy since its competitiveness depends on the diversification of exports.

In general, diversification can occur in the innovative and inertial direction [10] (Fig. 3).

Under conditions of economic crisis and loss of foreign markets, it is advisable to use the opportunities of both diversification directions.

Ukraine, as an export-oriented country, is dependent on global processes. The export share in its GDP is more than 50%, with the domestic export structure being dominated by raw materials (70% are raw materials assets). In the case of a slowdown in world trade, the external demand for Ukrainian goods will decrease, which will result in a decrease in domestic production, deterioration in the trade balance, and depreciation of the national currency.

Ukraine has large amounts of debt. In 2019, USD2 billion will be required only to service external debts and USD4.3 billion – to pay them off.

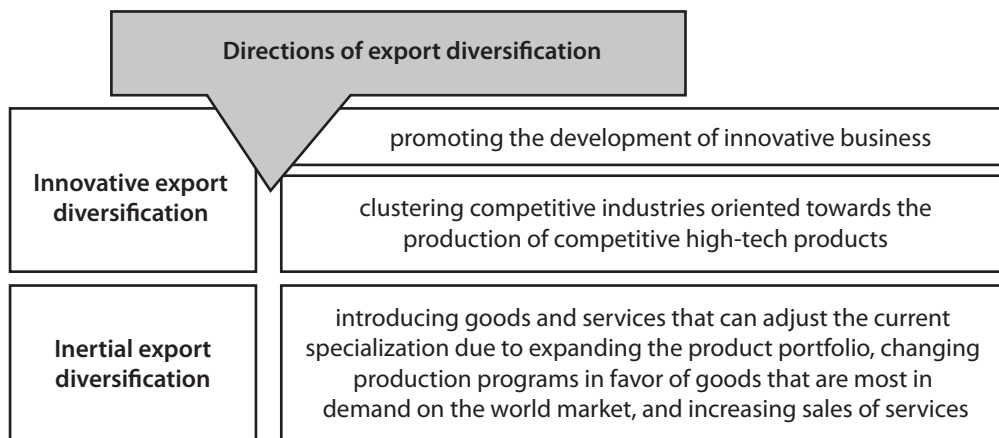


Fig. 3. Directions of export diversification

In the event of aggravation of the global economic crisis, Ukraine will not be able to finance its external debts and attract new financing. This will lead to a decrease in the value of raw materials that prevail in its export structure, and accordingly, foreign exchange earnings will fall. And, as a consequence – devaluation, inflation, impoverishment of the population can occur.

Studies show that Ukraine has not yet been sufficiently using the opportunities in its trade with 75 countries of the world, including the United States, Germany, Britain, France, Japan and Canada, which results in the loss of about USD 6 billion of its potential income (*Tbl. 1*). Although these indicators take into account the export basket as a whole, this does not mean that they reflect opportunities for expanding trade in each of the existing sectors. In the future, it is necessary to conduct a detailed analysis of markets with great export potential for each of the priority sectors [1].

Table 1

Ten major countries the opportunities of trade with which are insufficiently used by Ukraine

Place	Country	USD
1	The USA	1 935 971 968
2	Germany	1 150 496 128
3	Great Britain	1 009 080 704
4	France	759 456 320
5	Japan	459 574 272
6	China	190 861 568
7	Sweden	120 487 504
8	Switzerland	76 122 616
9	Canada	46 610 696
10	Ireland	28 484 412
11	Total	5 918 056 535

Ukrainian exports are characterized by the growing presence of Ukraine in new markets, as well as a high risk of a decrease in export volumes and a low probability of creating new products to export. This indicates the unsystematic fragmentary nature of trade relations, which may be a sign of poor product quality [1].

Some scholars emphasize the problems of methodological and organizational support for diversification management at the regional level. The development of a methodology to assess export diversification at the level of a region and enterprise should be the first step in determining mechanisms of diversification, and the results of the analysis should be the basis for determining measures aimed at optimizing the geographic and commodity structure of a region's export.

In the framework of the study, diversification is considered in the context of using a process-oriented management approach in an enterprise. This involves a

sequence of stages (actions) aimed at developing various types of activities, improving existing goods, works, services and creating new ones in order to ensure operation of enterprises and enhance their competitive positions in domestic and foreign markets on the basis of the rational distribution and use of resources [11]. For further studying the diversification process, the IDEF0 standard, capable of graphically representing (with the help of graphic description language) business processes, is applied. An IDEF0 model presents a set of hierarchically interconnected diagrams, each of which is its structural unit.

To make effective management decisions regarding the export policy of an enterprise, the process of assessing the diversification of the enterprise is of importance. Its general scheme is given in *Fig. 4*. It can be seen that each of the functional blocks (steps) also comprises a set of corresponding actions. In particular, the "Analysis of diversification measures" block, which is among the key ones in the model, includes the following components: determining the level of diversification of production; determining the stages of obtaining added value (assessing its share in the value of marketable products); determining sales diversification (assessing the diversity of sales markets and their segments); determining the degree of similarity of types of economic activity [12].

It is also important to dwell on the main approaches to assessing enterprise diversification, which are summarized in *Fig. 5* based on the results of theoretical and practical analysis [5; 6; 13].

In general, the composition, content and sequence of the basic stages of assessing enterprise export diversification are determined by the following factors: availability of appropriate resources, size of the enterprise, level of staff qualifications, level of management effectiveness, foreign market research, internal motivation and goals of export activities. Understanding the main stages of enterprise export diversification is an important condition for its further implementation.

CONCLUSIONS

In the course of the research there obtained the following results:

- ✦ the carried out analysis of the structure of and trends in Ukraine export activities revealed its low diversification, which is the most significant problem for the Ukrainian economy since its competitiveness depends on export diversification. Today, diversification of domestic products, which aims to gradually transform Ukraine into a state with an innovative knowledge-based economy, is required. This will restore economic growth and achieve a certain level of competitiveness;
- ✦ a greater diversification of Ukrainian exports due to a gradual decrease in Ukraine's orientation to the markets of CIS countries and, in particular, to that of Russia, is noted. Ukraine has not yet sufficiently used the opportunities in its trade with

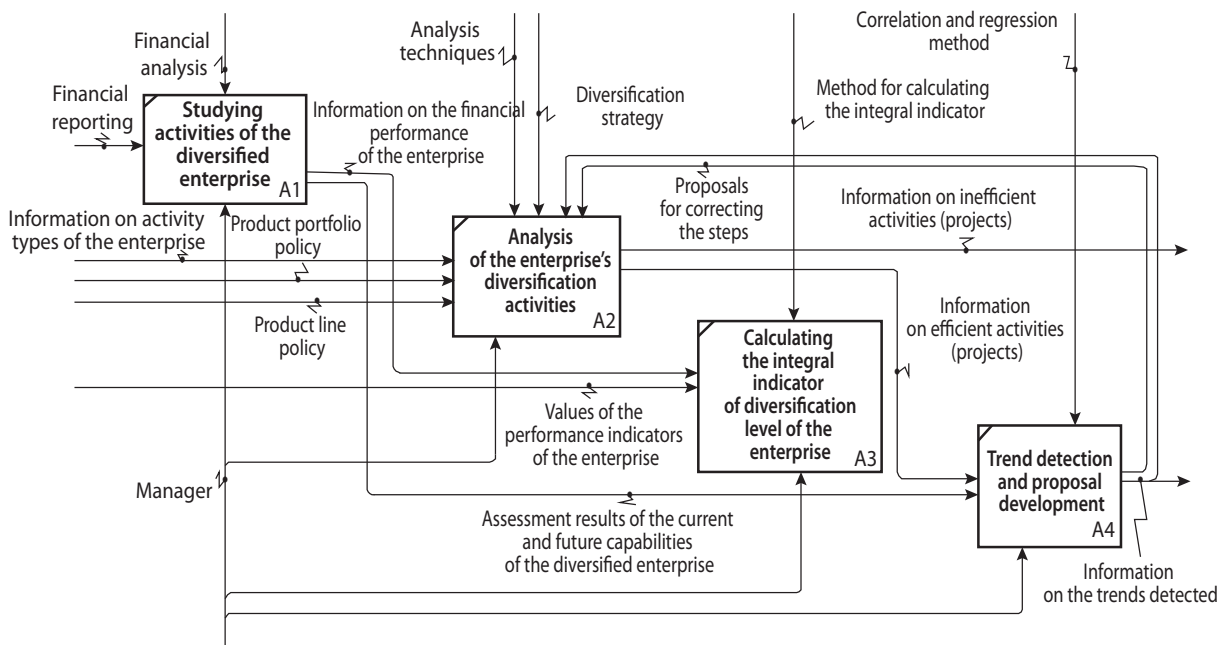


Fig. 4. Process of assessing enterprise export diversification (developed using the Ramus Educational software)

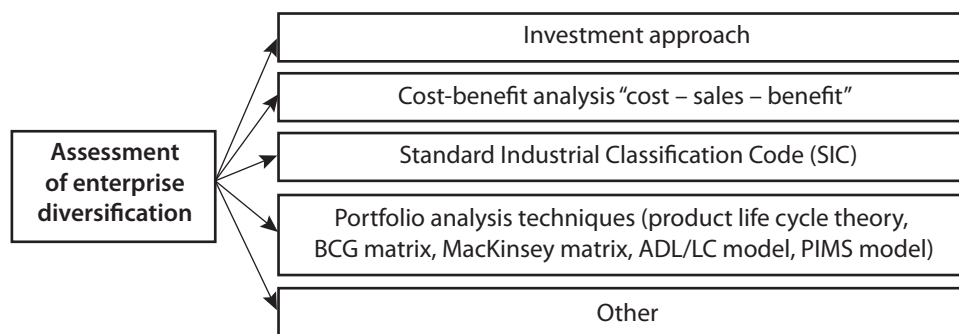


Fig. 5. Main approaches to the assessment and analysis of enterprise diversification

75 countries of the world, including the United States, Germany, Britain, France, Japan and Canada, which results in the loss of about USD6 billion of its potential income;

- ✦ under conditions of economic crisis and loss of foreign sales markets, it is advisable to use the opportunities of innovative and inertial directions of diversification;
- ✦ a methodology for assessing diversification of potential exports at the level of the region and enterprise, which should be the basis for determining methods of diversification and identifying measures aimed at optimizing the commodity structure of exports, is proposed. ■

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