

PROSPECTS FOR DEVELOPMENT OF DOMESTIC TRADE IN UKRAINE

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Abstract

It's necessary to mention that several factors have played an important role in the past 30 years in the expansion of internal and world trade, including emerging trade and development opportunities and challenges for all countries, in particular, developing countries, in the context of the growing integration of economies, national markets, rapid globalization, liberalization of tariffs, and other barriers to trade, foreign direct investment, increasing contribution of trade to development.

The given study is disclosing the theoretical and methodological aspects of the impact of globalization processes on the nature of the development and dynamics of domestic trade. The relevance of this problem is determined by the lack of fundamental research in this area. It is determining scientifically the directions and trends of the globalization impact on the system of internal trade.

Keywords: *economic globalization, domestic trade, import, investment, trading capital.*

JEL classification: F02, F18

1. Introduction

Globalization is a multifaceted and scale phenomenon, the essence of which is that as a result of a wide exchange of goods, services, financial resources, technology and information world becomes more interconnected.

Despite of the scale, high dynamics of the globalization processes and the noble goals of their impact on the socio-economic development of many countries, it is impossible to assess it ambiguously and positively. The famous American explorer of corporate globalization David K. Korten sees injustice of the phenomenon purpose "...in excessive concentration of foreign resources' control and growing materialization of human relations" [3, p.2].

Nobel laureate Joseph Stiglitz directly warns that if globalization will continue in the same spirit, it "will not only contribute to the development, but will continue to create poverty and instability" [4 p.18].

Ukrainian researchers of globalization also argue that globalization "...has not been able to prove in practice one of its main advantages - the alignment of economic growth and income of countries" [2, p.123].

The modern world has become even more skewed. Asymmetry and the gap in the rate of development of countries with different levels of the economy have actualized the issue of future models of globalization. Nowadays we can say clearly that globalization processes are aimed at mainstream regionalization. In different regions of the world there are economic, financial, customs associations and unions, free trade zone. In fact new regional integration associations are

being established around such centers as the U.S.A, EU, Russia and Japan. At the same time Ukraine is in the center of gravity of two centers - the EU and the Russian Federation. The largest integrator is definitely considered the EU, which unites 28 countries, and also agreements on free trade zones have been concluded with 30 countries from different continents. Negotiations are being carried out with other 18 countries, including the U.S.A, Japan and Canada. Ukraine, as we know, is continuing the negotiations with EU on the creation of a free trade zone (FTZ) within the Treaty of the EU Association.

The Russian Federation also generates FTZ and, moreover, “the customs union” with such members as Belarus, Armenia, Kazakhstan and Russia.

Both the Western and Eastern vectors aim at political and economic integration with a focus on the expansion of trade and economic relations. As it can be seen, trade and international exchange constitute the main integration platform at the early stages. Therefore it is very important to analyze the development of domestic trade in the context of globalization and to simulate the effects of its integration.

2. The impact of globalization processes on domestic trade development

Note that the trade sector in Ukraine occupies a special place in the national economy. It provides commodity-money exchange in the form of sale for an amount that exceeds 1.8 trillion of UAH per year, 75-80% of the material meets the needs of the population, involving huge turnover of commodity resources. Trade generates 14-15 % of GDP, providing employment not less than 25% of the country's labor force.

Therefore commerce refers to the vital areas of the national economy (Figure 1).

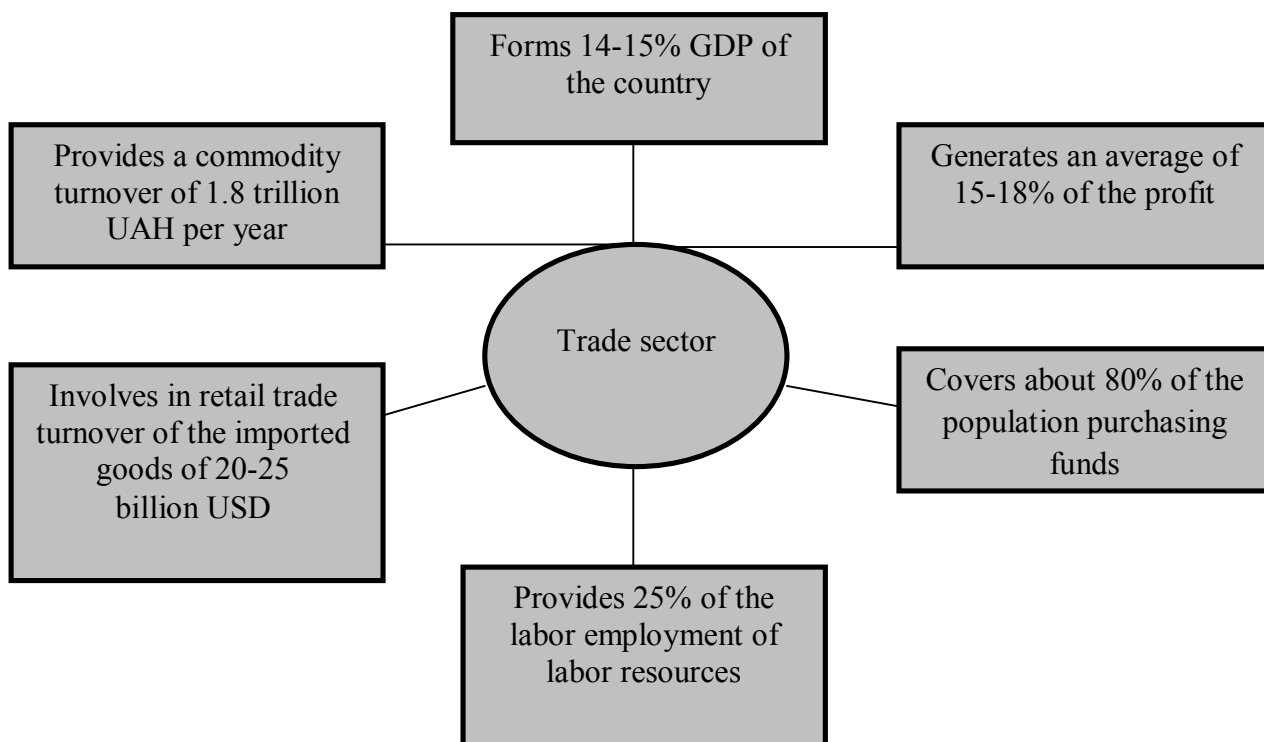


Figure 1: Trading venue in the socio-economic development of country

The venue of trade in the national economy, its resource potential and impact on socio- economic development of the country impose the need for a deep understanding of the processes of globalization and their consequences for the sphere of commodity circulation.

Theoretical analysis and the experience of many countries show that economic globalization is characterized by the free movement of goods, services and cultural values, technologies across administrative boundaries and active influence on some sectors and trading systems (Figure 2).

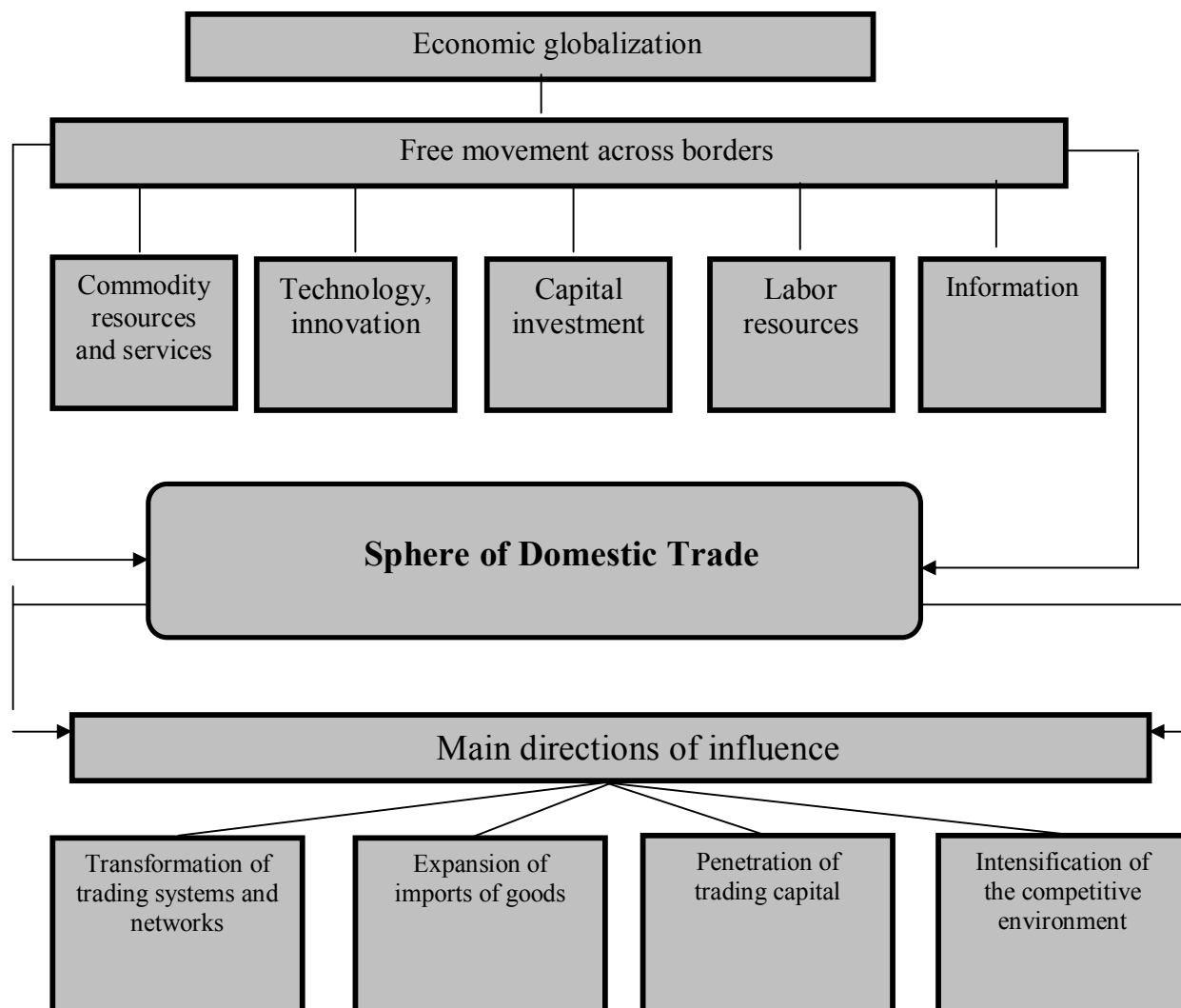


Figure 2: Main directions of the impact of economic globalization on domestic trade

As Figure 2 shows, processes of globalization get into the sphere of commodity circulation, mainly on four areas: organizational forms, goods’ import, investment, competition. Let consider in detail the indicated directions.

Organizational direction is characterized by the creation of new types and formats of stores, which appear due to the concentration of trade - large-trading enterprises - department stores, malls, supermarkets, hypermarkets, superstores. In recent years, such formats began to replace medium and small shops and now occupy a significant share in the turnover (Table 1).

As it is shown by data of Table 1 quantitatively the large-scale enterprises account for only 4.2% of retail trade units. At the same time they are quite powerful for retail space - about half the total area of retail and 45% of turnover. A deeper analysis shows that at least 60% of retail trade foodstuffs' turnover is concentrated in large enterprises.

Table 1: Development of large-format stores in the retail trade of Ukraine (2012)

	Number of units		Trade area		Turnover	
	units	%	thousand m ²	%	million UAH	%
Total stores	47234	100	9294	100	392555	100
Supermarkets	1565	3.3	1475	15.8	81258	20.7
Hypermarkets	261	0.5	1438	15.4	56135	14.3
Department Stores	65	0.1	103	1.1	3140	0.8
Shopping centers	126	0.3	1577	16.9	35448	8.8
Total large-format stores	2017	4.2	4543	49.2	175981	44.6

It should be emphasized that the large trading units have several advantages in economic, technological and organizational nature, which explains their rapid development. They acquire the organizational form of networks of large-format retailing enterprises.

Network of such enterprises are corporate in nature and belong to large commercial and industrial groups, companies such as: “Cocktail”, “Selpo” (Fozzi Group), “Maxi”, “Tiki-market”, “Sper”, “Billa”, “Metro Cash & Carry”, “Arsen” (“Intermarket”), “Eldorado”, “Foxtrot”, “Epicenter” and others.

Currently there are two main groups of retailers, the first group - the ones that get into Ukraine through partners (franchiser), the second group - those who have their own parent company (which practically are companies from Russia – “Sportmaster”, O'stin, Incity, Gloria Jeans, Centro; from Poland - company LPP, Italy Collezione and Turkey - LC Waikiki). At the same time it should be noted that the Ukrainian market is 90% franchised.

It is also continuing the competitive struggle among the companies on the market of household goods and appliances. So, in 2012 the company “Technopolis” swallowed network of home appliances and electronics “Eldorado” while increasing the number of stores to 165 units (the second place on the market). Network of mobile phones sale “Hello” also bought its rival – “Mobilochka”, which increased the number of companies selling this type of product to 900 units (compared with Ringoo, which has just 312 booths).

The main directions of expansion of Western retailers are those segments where there are no large operators who would occupy a large market share: it is retail trade of food, household goods, and clothing. There were attempts to enter the consumer electronics market, which is divided between the four major domestic networks, as well as in pharmaceutical business, where the large Ukrainian network is booming, but it failed.

Another important direction of advance of economic globalization in the field of domestic trade is the uncontrolled growth of goods' import. In recent years, the dynamics of imports significantly accelerated. If in 2005 the volume of imports of goods accounted for 36 billion dollars, in 2012 has already reached 85 billion. According to our estimates consumer goods constitute at least 40% of this volume. Accordingly, every year for domestically produced goods there is decrease in the turnover, and for some types of goods - to a critical level (Table 2).

The data of Table 2 confirm decreasing of the share of domestically produced goods. Especially alarming is the situation in the field of trade with nonfood products, where import reached 60% and continues to grow. A similar situation is observed in the wholesale trade. Essentially uncritical import replaced entire group of products.

Table 2: The share of domestically produced goods in the retail trade turnover of Ukraine (%)

	Years				
	2000	2005	2010	2011	2012
All Products	75.3	70.5	64.3	61.9	58.9
<i>Food:</i>	93.2	40.9	88.2	87.2	86.3
- fish and fish products	77.3	80.6	70.4	68.8	66.0
- pasta	96.1	88.8	79.8	79.3	75.5
- vegetables	97.1	40.5	90.6	86.6	77.7
- fruits, berries, grapes	85.8	80.8	81.4	80.6	77.0
- canned fruit	88.4	82.9	64.7	61.1	56.3
<i>Nonfood products:</i>	58.7	57.6	50.1	47.2	41.9
- shoes	40.9	9.3	4.2	3.6	2.8
- clothing	45.2	26.4	13.7	12.7	10.9
- watch	11.8	6.2	3.6	3.8	2.9
- computer equipment	9.5	22.5	6.1	3.0	1.2
- electrical household appliances	20.9	8.1	11.4	11.0	10.7
- household goods	64.0	61.2	29.0	28.0	29.2
- vehicles	22.6	20.2	17.4	13.1	11.8

These data show a significant decline in production of domestic goods. As a result, the share of domestic goods on the domestic market declined significantly and reached a critical level in accordance with the standards of national economic security. Thus, according to our calculations taking into consideration non-organized (informal) market, the share of domestic food products decreased to 70%, while the share of domestic nonfood products constitutes only 30 - 35%.

Thus, in terms of commodity-resource supply dependence on imports, the national consumer goods market is in a critical area of security.

It is important to note that the import aspect of the internationalization of trade has a positive aspect, which consists in the supply of consumer goods, the expansion and updating of assortment, accessibility to consumer goods.

Along with the expansion of imports another trend of globalization is observed - a large-scale penetration of foreign commercial capital in the sphere of commodity circulation, primarily for investment purposes.

Investment attractiveness of the domestic consumer market of Ukraine is stimulated by the following factors:

- high capacity of the consumer market and its stable growth and development in the last decade;
- short payback period of investments in the trade;
- inaccessibility of trading business for long-term bank loans in Ukraine and excessively high rates for the loan;
- high asset turnover in trade;
- increasing dependence of trade from loan capital.

Direct foreign investment in domestic trade is characterized by stable positive dynamics (Figure 3).

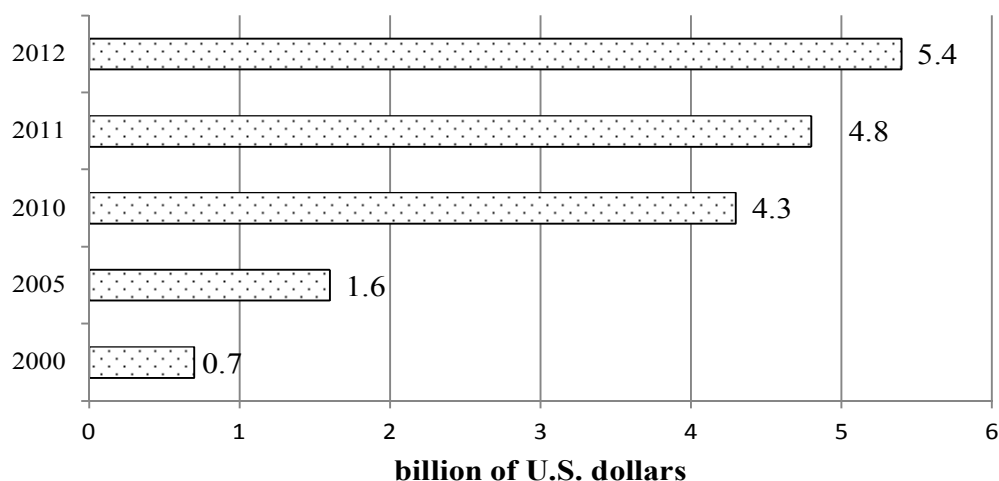


Figure 3: Foreign direct investment in trade

As you can see in Figure 3, the volume of foreign investment increased by 7.5 times in 2000-2012 and reached more than \$ 5.4 billion in 2012. The scale of foreign investment trade is second among all types of economic activity, while conceding only processing industry.

Note that the rate of investment in trade is very high. Thus, in 2000 - 2012 investment in fixed assets increased from 30 billion USD to 260 billion USD (8.7 times) and in the field of trade - from 1.3 billion USD to 17 billion USD, by 13 times.

Such investment activity leads to accelerated development of all sectors of domestic trade. It should be noted that domestic and foreign investments have a different orientation.

Domestic investment funds are directed mainly to the development of motor vehicles, other vehicles, as well as in retail trade (52.7%). Structure of foreign investment is diametrically opposed. Their investment in retail trade does not exceed 9.5%, which indicates the growing interest of foreign investors at present time and the most important sector in perspective - wholesale.

In general, the accelerated increase of investment in fixed assets in the domestic trade of Ukraine has a number of positive effects:

- qualitatively updated fixed assets in all sectors of commerce;
- technological advances and a deep modernization of the branch;
- increasing of the competitiveness of trade units;
- instituting modern system of trading service based on high quality, culture and effectiveness.

However, there is fundamentally new phenomenon in the national economy - foreign direct investment creates favorable conditions for intensive development of foreign actors in the commodity markets of Ukraine. And this process will become widespread.

An accelerated pace increases the number of new foreign trade entities that displace domestic commercial business from the domestic consumer market. Only for 2005-2012 the number of units

in the organized retail sector in Ukraine has decreased by nearly 20%, which means that at least 10 thousand of stores ceased their activities.

Thus, globalization is a process not only poorly studied theoretically and tangled in practical terms. It cannot be taken as a purely adaptive process.

3. Conclusions

Economic globalization affects domestic trade in the following main areas: organizational restructuring, the expansion of goods' import, the penetration of commercial capital and the intensification of competition. Socio-economic consequences of globalization cannot be assessed ambiguously. They have both positive and negative aspects, while in the strategic plan the last prevails.

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