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CUSTOMS POLICY OF UKRAINE IN THE CONTEXT OF CYCLICAL ECONOMIC DEVELOPMENT

Abstract. It was determined that the Ukrainian economy is much more exposed to sharp fluctuations in economic activity, while the development of the economies of the EU countries is more stable and predictable without rapid jumps in economic development. The main factors influencing the cyclical development of the Ukrainian economy were analyzed in the article. The significant influence of the political situation on the economic development of Ukraine is determined. The substantive influence of foreign economic factors on the development of economic processes in Ukraine is substantiated. It is determined that effective and balanced customs policy of Ukraine can promote the rapid development of foreign trade, which will help to overcome the negative consequences of cyclical economic development. The creation of a free trade zone between Ukraine and EU countries in the context of cyclical economic development is considered. The main advantages and probable risks of reducing tariff and nontariff barriers in trade between Ukraine and the EU countries are revealed. Considered the volume of trade flows between Ukraine and the EU, it is substantiated that Ukraine has a rather weak position in trade relations with EU countries, this is reflected in the negative balance of foreign trade with the EU countries, as well as in the attraction of exports of goods with low value added.

The volume of tax revenues for international trade to the State Budget of Ukraine is analyzed, on the basis of which it is determined that the liberalization of trade relations with the EU in the first periods of the creation of the free trade zone has led to a significant reduction of customs duties to the State Budget of Ukraine. It is substantiated that the establishment of a free trade zone with the EU would be less threatening in terms of the interests of the Ukrainian economy, in the event that it took place during the period of stable economic growth.

Keywords: business cycle, customs policy, customs duty, international trade, Free trading zone.

JEL Classification E62, E32, F15, F44

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МИТНА ПОЛІТИКА УКРАЇНИ В КОНТЕКСТІ ЦИКЛІЧНОСТІ ЕКОНОМІЧНОГО РОЗВИТКУ

Анотація. Визначено, що економічний розвиток України протягом усього періоду її функціонування був дуже нестабільним. У результаті порівняння тенденцій економічного розвитку України і країн ЄС було визначено, що українська економіка набагато більше схильна до різких коливань економічної активності, тоді як розвиток економік країн ЄС є більш стабільним і передбачуваним без стрімких стрибків економічного розвитку.

Проведено аналіз основних факторів, що впливають на циклічність розвитку економіки України. Визначено значний вплив політичної ситуації на економічний розвиток України. Обґрунтовано істотний вплив зовнішньоекономічних факторів на розвиток економічних процесів в Україні. Визначено, що ефективна і виважена митна політика України може сприяти стрімкому розвитку зовнішньої торгівлі, що допоможе подоланню негативних наслідків циклічності економічного розвитку. Розглянуто створення зони вільної торгівлі між Україною і країнами ЄС у контексті циклічності економічного розвитку. Виявлено основні переваги і вірогідні ризики зменшення тарифних і нетарифних бар'єрів при торгівлі України з країнами ЄС. Розглянуто обсяги торгових потоків між Україною та ЄС, обґрунтовано, що Україна має досить слабку позицію в торговельних відносинах із країнами ЄС, це проявляється у від'ємному сальдо зовнішньої торгівлі з країнами ЄС, а також у превалюванні експорту товарів із низькою доданою вартістю.

Проаналізовано обсяги надходжень податків на міжнародну торгівлю до Державного бюджету України, на основі чого визначено, що лібералізація торговельних відносин з ЄС уже в перші періоди створення зони вільної торгівлі привела до досить істотного зниження надходжень мита до Державного бюджету України. Обґрунтовано, що створення зони вільної торгівлі з ЄС було б менш загрозованим з позиції інтересів економіки України, у тому разі якщо б воно відбувалося в період сталого економічно зростання.

Ключові слова: економічний цикл, митна політика, мито, міжнародна торгівля, зона вільної торгівлі.

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Introduction. The cyclic nature is an objective regularity of development, which is characteristic for all economic systems of the world. Recently, the Ukrainian economy has been demonstrating downward trends that have an affect on the activities of almost all economic actors, and especially of subjects of foreign economic activity. An analysis of the cyclical nature of economic development in Ukraine and in the EU countries, the impact of such cyclical fluctuations on foreign trade is relevant in the context of the European integration processes that are currently characteristic of Ukraine. The state's customs policy is a powerful fiscal instrument that provides a significant share of revenues to the state budget, in addition it is aimed at regulating foreign trade. During the

formation of customs policy is extremely important to taking into consideration the state trends of the economic development. The formation of an effective set of customs policy measures helps to reduce the negative consequences of the economic crisis on the foreign trade sphere.

Analysis of researches and problem statement. Researches of economic dynamics are reflected in the writings of such scholars as J. Keynes [1], W. Mitchell, S. Kuznets [2], J. Schumpeter [3] and others. Problems of cyclic economic growth are studied in the works of Ukrainian scientists O. Bilorus, O. Bandura, V. Geyts, M. Skrypnichenko, M. Tugan-Baranovsky and many others. Questions of the customs policy of Ukraine are considered in the works of such scientists as K. Vladimirov, O. Grebelnik, V. Dudchak, O. Martynyuka, V. Pashko.

However, some aspects of the economic dynamics in Ukraine and in EU, and the peculiarities of the Ukraine customs policy in the context of cyclical economic development are not sufficiently covered in scientific works.

The purpose of the article is to analyze the cyclical patterns of development of the economic systems of Ukraine and of EU, and to determine the problematic aspects of the formation of the Ukraine customs policy in the context of the development of European integration processes.

Results of the research. The Ukrainian economy has a number of features, because of the cyclic patterns of development are differed from the European trends. We compare the characteristics of Ukrainian economic development and of the European Union. For the analysis, we use the GDP indicator, which reflects the final result of the production activity of economic units in the sphere of tangible and intangible production (*Fig 1*). In general, European trends in economic development are rather stable without significant amplitudes of fluctuations, as compared to the situation in Ukraine.

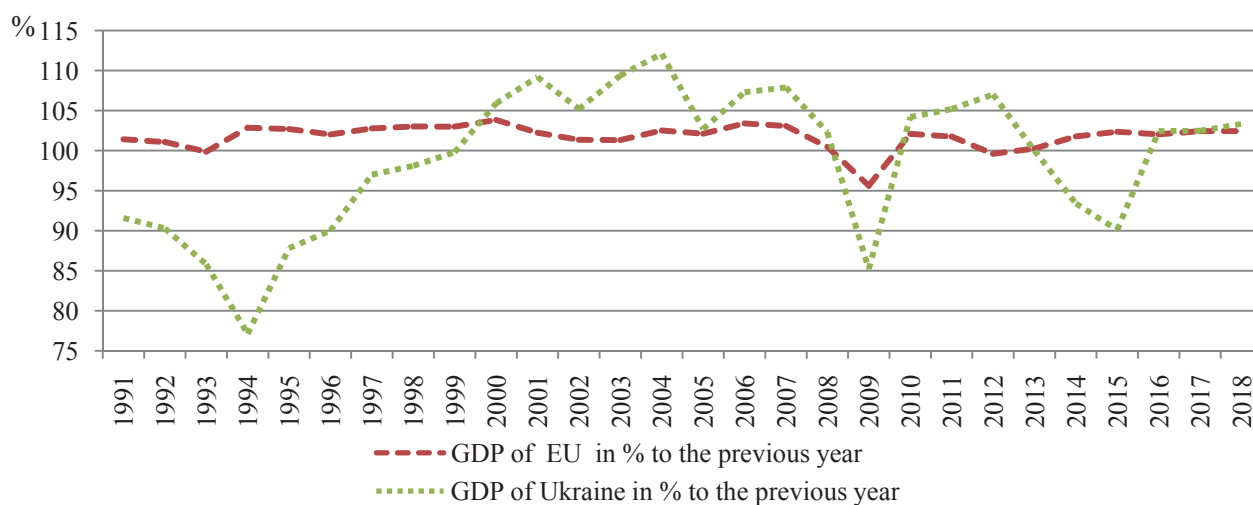


Fig. 1. Growth rates of GDP during 1991—2018 in Ukraine and EU countries

Source: [5].

Throughout the world a period of economic growth took place from 1991 to 2008, at this time the EU volume of GDP showed an increase every year, but the growth rate was not very high, on average about 2% per year. The growing part of Kondratieff's fifth long wave was during this period [4]. This trend in the world has changed only after the beginning of the world financial crisis of 2008.

Global trends of economic development have not always fullest manifested in the Ukrainian economy. During 1991—1999, the GDP of Ukraine was declining each year. The rate of decline until 1996 was very high — more than 10% annually. In 1997—1999, the recession was slowing down. During this period, the Ukrainian economic system was in deep structural crisis, when the restructuring took place from the planned economy to the market economy.

An annual increase of GDP in the Ukrainian economy was since 2000 to 2009. GDP growth rates in Ukraine were higher than in the EU. This trends due to the influence of a number of favorable factors, both internal and external:

- completion of the transformation process from the planned economy to the market economy. The final transformation of Ukraine from the status of the state with the transition economies to the status of the state with the market took place only at the end of 2005. The European Commission recognized Ukraine as a state with market economy at the end of 2005, and the US Department of Commerce — in early 2006. But the processes of forming market relations were mostly at the final stage at the beginning of the second millennium [6];

- favorable foreign trade conditions. The high world prices for the main products of Ukrainian exports — metal products, machine building products, agricultural products — allowed domestic exporting companies to receive high profits. During 2000—2003 the growth export of goods has almost doubled. The acceleration of the growth exports of machine building products increased by 38.3% in 2003, but the CIS countries were the main consumers of such products. In 2003, agricultural products exported from Ukraine in the amount of over 2.7 billion dollars, which is 14.4% more than in 2002. During 2000—2003 volumes of industrial production increased by 60.3% [6];

- effective reforms in the economic and social spheres. The introduction of a simplified tax system in 1999 facilitated the development of small businesses. The growth rate of the number of small business units 2000 was 13.4%, and in 2001, — 22,6%. Increasing the level of social standards. The growth of the minimum wage was 31% compared to the previous year in 2001;

- relative political stability during the period since 2000 by the end of 2004. Significant decline in the GDP growth rate occurred in 2005 (more than 10%), one of the reasons for which was an unstable political situation. During 2006—2007, when the political situation stabilized, the Ukrainian economy again began to show rapid GDP growth. During the period of the global financial crisis, which began in 2008, the pace of decline of GDP in the Ukrainian economy was much higher than in the EU. So in 2009, Ukraine's GDP fell by 14.8%, while in European countries — by 4.4%. GDP growth rates in Ukraine were higher than in European countries in the period of a post-crisis recovery since 2010 to 2013.

The Ukrainian economy was in a crisis situation in 2014—2015, GDP showed a negative dynamics, which was conditioned, first of all, by a number of internal factors of political and military character. The downward trend in economic development in Ukraine has changed on the rise trend in 2016. The GDP growth rate in Ukraine was almost equal to the GDP growth rate in the EU.

Thus, the tendencies of economic development in Ukraine and the countries of the EU are differ. The economic develop of EU is more stable, without such sharp jumps of economic development as in the Ukrainian economy. A distinctive feature of the Ukrainian economy is the high degree of dependence on the political situation in the state. It is also possible to note the high develop potential of the Ukrainian economy, as in the «favorable» periods of economic growth, GDP growth rates in Ukraine were much higher than in EU. Consider the volume of trade flows between Ukraine and the EU during 2004—2016 (*Fig. 2*). Period since 2004 was analyzed, because the «big» enlargement of the EU from 15 participating countries to 25 occurred in 2004, therefore, to compare the dynamics of import and export in absolute figures for the period up to 2004 is incorrect.

The balance of foreign trade between Ukraine and the EU countries was negative since 2005, thats indicates the weak position of Ukraine in trade relations with the EU countries. In the structure of exports of Ukrainian goods to the EU traditionally prevailing precious metals and products from them and products of vegetable origin — that is, goods with relatively low value added. Therefore, it is very important for the Ukrainian economy to increase the volume of exports to the EU countries and change structure of export, which will increase the currency revenues to the state and stimulate the further development of the economy.

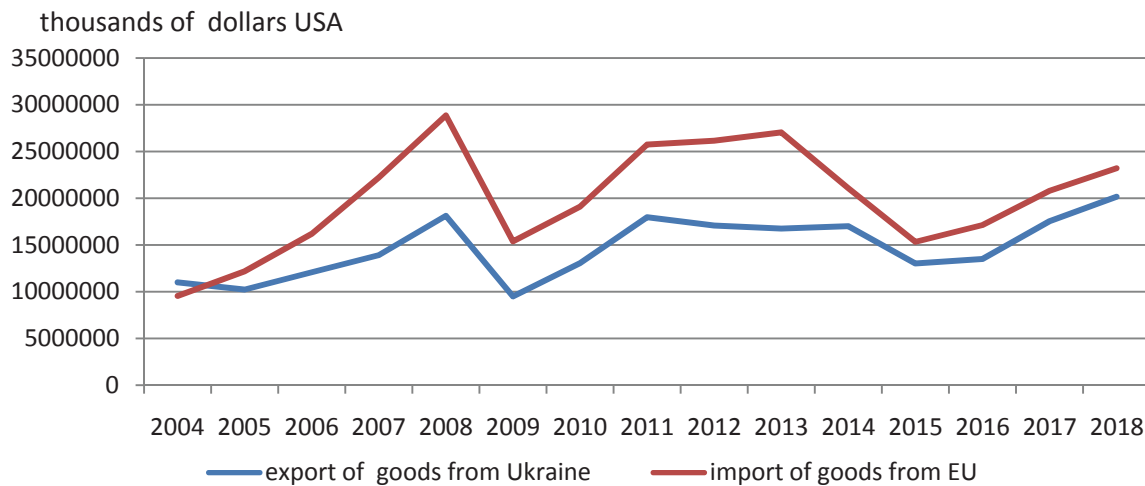


Fig. 2. Volumes of foreign trade between Ukraine and EU countries in 2004—2018
Source: [7].

Consequently, the character of the trade relations development corresponds to the general tendencies of Ukrainian economic development (*Table 1*).

Table 1

Trends in economic development and in trade between Ukraine and the EU

Period	The trend of EU economic development	The trend of Ukrainian economic development	Trade between Ukraine and the EU	
			import	export
2005—2008	moderate growth	rapid growth	rapid growth	rapid growth
2009	moderate recession	rapid recession	rapid recession	rapid recession
2010—2011	moderate growth	rapid growth	rapid growth	rapid growth
2012—2013	moderate growth	moderate growth	moderate growth	moderate recession
2014	moderate growth	rapid recession	rapid recession	moderate growth
2015	moderate growth	rapid recession	rapid recession	rapid recession
2016—2018	moderate growth	moderate growth	rapid growth	moderate growth

A decrease in volumes of both export and import took place in the crisis for Ukraine 2009 and 2015. Exports and imports between EU and Ukraine increased in 2016, growth was about 3% for exports and about 11% for imports. The growth of Ukrainian GDP by 2.3% was also characteristic for this period.

The Association Agreement between Ukraine and the EU was signed in 2014. The temporary application of the Agreement was implemented on November 1, 2014. The Section IV of this Agreement, which governing the formation of the EU—Ukraine free trade zone, came into force from January 1, 2016 year [8].

There is significant interconnectivity of the external Ukrainian trade sector and the general macroeconomic situation in the state. The purchasing power of citizens, and hence volumes of imported products sold in the state, is reduced during the periods of recession in the state. The possibilities of exporting products with high competitiveness in the European market are reduced, and therefore their overall volumes are decreasing.

The state influences on development of foreign trade relations with the help of customs policy, which is a system of principles and directions of the state's activity in the protection sphere of customs interests and provision of customs security of Ukraine, regulation of foreign trade, protection of the domestic market, development of the Ukrainian economy and its integration into the world economy. State customs policy is an integral part of state economic policy [9].

The implementation of the regulatory function of customs policy, which consists in implementing the state's influence on foreign economic relations to ensure the realization of national interests and interests of domestic commodity producers, is extremely important in the context of the post-crisis recovery of the current characteristic of the Ukrainian economy.

The dominant of development of the Ukrainian foreign policy is the European integration processes and the formation of the EU-Ukraine free trade zone.

The free access of Ukrainian goods to the European market contributes to the development of domestic production, on the one hand. However, given the traditionally negative balance of the external trade between the Ukraine and the EU, the reduction of barriers to European import to Ukraine may harm to national commodity producers, despite the fact that the lifting of barriers will be «asymmetric» in favor of Ukraine. The transition period for Ukraine will be from three to ten years, and for the automotive sector it will be fifteen years. EU countries must abolish trade barriers for seven years.

Customs policy, in addition to influencing on the foreign trade sphere, also performs an important fiscal function for the state. The volume of tax revenues for international trade in the State Budget of Ukraine in 2004—2018 was analyzed (Fig. 3).



Fig. 3. Revenue of taxes on international trade in UAH billion to the Ukrainian State Budget in 2004—2017

Source: [10].

There are two types of duties — import and export, depending on the direction of movement of goods crossing the customs territory of Ukraine. The volume of such payments depends on the volume of exports and imports and the rates of customs payments established in the state.

The volumes of revenues from taxes on international trade were steadily increasing (except 2006 when there was a slight decrease) during the period of 2004—2008. A decrease in this type of revenues was in 2009, in the time of the global financial crisis. It is explained by the effect of general macroeconomic trends and a significant reduction in the volumes of exports and imports of goods, as well as a series of measures of the customs policy of the country, which were introduced in this period. The average weighted rate of customs duty was reduced from 8.1% in 2008 to 6.9% in 2009.

Revenues from taxes on international trade showed a steady upward trend in 2010—2013, but in 2014, this trend was discontinued. A significant increase in the volume of revenues from customs payments was in 2015, in a period of rapid economic downturn, accompanied by a reduction in foreign trade volumes. The main reason of this trend was the revision of the preferential rates of customs duties on products from the Russian Federation.

Liberalization of foreign trade relations between Ukraine and the EU and introduction of a free trade zone started in 2016. The reduction of customs duty revenues amounted to 40% compared to the previous year, changes in the volume of imports were slight on this time. This was mainly due to the reduction of import duties for goods from EU.

Thus, the liberalization of trade relations between Ukraine and EU has led to a significant reduction in revenues from customs duties to the state budget in the first periods. At the same time, the growth of imports European goods is more significant than the growth of Ukrainian exports. The Ukrainian economy has not fully recovered from the crisis, a large part of the enterprises are loss-making, there are inflationary processes in the country, most domestic producers are not able to pass all the necessary certification and quality assurance procedures necessary for the export of their products to the EU

Conclusions. As a result of the GDP analysis it was determined that the development of the Ukrainian economy is very unstable. The cyclical patterns of economic development, which are characteristic of the EU states economies, are more expressed in the Ukrainian economy.

Conducted research has shown that the Ukrainian economy, in comparison with the EU, is characterized by significantly lower indicators of stability and predictability of development. The

influence of various internal factors on the cyclical dynamic of economic development, which often leads to declining tendencies in the state's economy, is very high in the Ukrainian economy. The Ukrainian economy has just begun to recover after a deep economic crisis now. Therefore, an important task of the state economic policy in general and customs policy in particular is to support economic development in the country

The development of integration processes and the liberalization of trade relations with the EU in the future will contribute to stabilizing and growth of Ukraine's economy. However, the EU—Ukraine free trade zone was implemented in a period, when the Ukrainian economy has not fully recovered immediately after a deep economic downturn. A significant decrease in import duty revenue to the Ukrainian state budget was in the first periods of free trade zone formation, despite the «asymmetric» nature of overcoming trade barriers between Ukraine and the EU. The growth of exports to the EU countries was lower than the growth of imports, this is a threat to the Ukrainian economy. The introduction of a free trade zone with the EU would be less threatening in terms of the interests of the Ukrainian economy, if it occurred during a period of steady economic growth.

As a result of the research it is determined that an increase in the volume of exports of Ukrainian products will help for faster post-crisis recovery of the Ukrainian economy. This requires modernization of production facilities and improvements the competitiveness of Ukrainian products.

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