

PROBLEMS AND PROSPECTS OF UKRAINE'S FOOD INDUSTRY

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Abstract. Ukraine's food industry is extremely important for the country's economy, and food production always deserves special attention in state economic policy and ensuring food security of the country. Therefore, this *research is dedicated* to the analysis of the main problems of development of the food processing sector of the country's economy and finding prospects for its development in the current conditions of functioning. *The purpose of the article* is the researching of problems of functioning and search of ways of improvement of development of Ukraine's food industry in the conditions of reorientation of process of manufacturing of branch products to more innovative and technologically advanced with high value added, taking into account modern global financial and economic, and technological trends of functioning of economy; identification of all positive and negative factors of functioning in the new conditions of the industry. Such production is considered as the main instrument of the country for improving the efficiency of development of the food industry of Ukraine in particular, and the economy of the country as a whole. In order to reach this purpose, the following *objectives* have been solved: the basic tendencies of development of the food processing sector of Ukraine are summarized in the context of solving global problems and challenges of the present and the directions of improving the efficiency of development of the food industry of Ukraine are justified by determining the priority of the state influence on the production and increase of export of food products with high value added. *The subject of the research* have been scientific, theoretical, methodological and practical aspects of the problems and prospects of development of the food industry of Ukraine. *The methodology of the research* assumes the dialectical nature of the relationship between the development of the global economy, integration processes, structural and transformational changes in the world economy with the formation and functioning of the food processing sector of the national economy. The research is based on a systemic approach, which is a comprehensive study of the main problems of food industry development. In addition, the methods of the empirical as well as theoretical levels have been used, namely: comparative analysis is to study the development of particular branches of the food industry and the main problems inherent in a particular industry; SWOT analysis, the methodology of which is the basis for developing strategic plans at any level; statistical and economic methods are to identify trends in structural and dynamic changes in food production; abstract-logical method is for generalization of theoretical propositions, establishment of causal relationships and formation of conclusions and proposals. The article *considers* the objective necessity of state supporting of the food industry of Ukraine in the conditions of a market economy, in view of their unique features. The economic principles of the necessity of directing state regulation to support the development of food processing with a deeper technological process of manufacturing of innovative products with high value added, as the main tool for enhancing the development of the food industry, are *formed*. The results of the research and conclusions obtained can be used in the practical activity of public authorities and local self-government aimed at ensuring food security, for the development of programs for the development of food industry, in the development of state programs of socio-economic development.

Key words: food industry, production, export, value added, economic growth, SWOT analysis, government regulation.

JEL Classification: A11, L50, L66, O44

1. Introduction

According to recent global data (Food and Agriculture Organization of the United Nations, 2019; Global Innovation Index, 2017), the food

processing sector of the world economy will face tremendous demand that will provoke "extreme" population growth of up to 9.7 billion in 2050, with 73% of them living in cities. The intensification

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of competition by limiting natural resources will lead to an escalation of the "trade war" in the world market and an increase in the risk of food security. This is the situation that necessitates the implementation of an effective state strategy of food industry development in Ukraine. It would not only ensure the country's internal food security, but also allow it to bring its economy from secular (lifelong) stagnation to a new level, which will create a solid foundation for its future European development.

Domination of production and export of raw materials, as well as production of goods with a low degree of processing in the economy of the country lead to the economy in the conditions of a long protracted crisis with constant risk of default, given that there are paradoxical phenomena in the formation of GDP of the country, which leads to an increase in marginal costs and, consequently, a decrease in income from each unit of sales. And if the food industry of Ukraine is dominated by industries that produce high value added foodstuff and a profound technological-innovative degree of their processing, then there will be an "explosive" economic growth, an increase in national income and in the population's well-being through job creation, wages and food security.

That is, in the modern conditions of deindustrialization, there is a necessity of Ukraine's departure from the status of "powerful agrarian country" to a country with technological process of deep processing and production of innovative products of the food industry. This is precisely the main function of government regulation in the agrarian sphere, that is, a complete reboot of the regulatory framework and the concept of its essence in the effectiveness of the development of the food industry of the country, reorientation of long-established views of 180 degrees and changes in the strategic planning of economic development of the country.

2. The main problems of food industry development

Having examined the development of the food industry in Ukraine (Khrypiuk, 2018), we can state that in recent years its development shows a gradual growth, but the enormous natural and political potential is not only inefficiently used, but also systematically destroyed. All this is due to the fact that the mechanism of the government regulation in Ukraine is a hybrid of the remnants

of the outdated Soviet organizational structure and new directions of economic development, which are formed on the monopolistic activity of the market. Therefore, trying to adapt the government regulation system of Ukraine to the requirements of market-developed countries without radical changes of its organizational structure will lead to discrimination of reforms and deepening of the economic crisis.

Obviously, the main problem is that in the current conditions of world production, Ukraine is in the so-called "globalization trap", because the major part of our country's imports belongs to the high value added goods used for growing and production of raw materials, the vast majority of which is exported. Deindustrialization processes with no proper effective state strategy for economic development has transformed Ukraine into a raw material appendage of economically developed industrial countries, the basis of state policy of which is aimed at promoting the development of processing production with high-tech and innovative products.

Other negative trends hampering the development of the food industry in Ukraine can be compared with the industries and productions of the food industry products, which are most relevant to them, in particular:

- decline of leading industries such as: sugar, bakery;
- low purchasing power of the population, which is exacerbated by the steady rise in prices for products and a "critical" share of household expenditures, as a result, unbalanced nutrition, especially in the meat, fruit and vegetable, and dairy industries;
- shortage and import dependence of raw materials on some items, namely meat processing, fish, dairy;
- high geographical concentration of export of products to the countries of the former post-socialist space, including the bakery and dairy industry;
- obsolescence of fixed assets and equipment of processing enterprises (more than 50%), the modernization of which requires considerable investment, is especially felt by sugar producers;
- insufficiency of own funds of enterprises, as well as insufficient programs of financing by the country, in particular, the need for significant funding for the process of various certification of products at food processing enterprises (HACCP, Global, etc.), concerns producers of products of animal origin, dairy, meat branch;

These factors apply to all industries and productions:

- lack of innovation, lack of investment;
- disproportions in the system of pricing, rising prices and tariffs on the main components of the cost of foodstuff (in particular, energy supplies);
- monopolization of the food market (especially such as poultry production, confectionery, fat and oil industry), the principle of other sectors of the economy, which causes unfair competition in the food market and corruption to flourish;
- poor quality of the regulatory environment, which complicates the conditions of operation of enterprises;
- high level of shadow economy, which leads to the impossibility of generating real statistics on the activities of economic entities, assessing their profitability, as well as the loss of a large part of the country's budget;
- insufficient quality of products due to poor quality of raw materials, outdated equipment, non-compliance with sanitary standards, etc., limits the competitiveness of domestic production;
- absence of legislation on the protection of intellectual property;
- lack of relation between suppliers of raw materials and processing plants for the production of finished products with high value added;
- existing institutional bodies and normative acts of the government regulation, which are declarative in nature, the organizational activities of which contradict each other and impose additional administrative barriers on the development of the food industry.

Consequently, there are many problems in the food industry that tend to intensify and need to be addressed urgently. It is necessary to pay attention to the fact that in the current market conditions it is not possible to stabilize the provision of foodstuff to the population, to improve their quality and safety, and to improve the efficiency of the development of the branches and productions of the food industry without the state coordination of their activity, in particular in terms of financial support, which will make it possible to overcome their basic problems.

3. Prospects for the development of Ukraine's food industry

It is necessary to formulate the existing prospects of development of Ukraine's food industry to overcome the problems mentioned above. After all, in spite of the above obstacles to the effective

development of the food industry, there are also some positive factors inherent in the industry, such as the availability of natural resources and unused potential.

In order to determine the development prospects, the strengths and weaknesses of the food industry, as well as the opportunities and potential threats in the event of intensified action by the country, are systematized. This analysis is based on the principle of SWOT analysis (Table 1; Table 2), theoretical aspects and methods of formation of which are given in the literature (Berry, 2018; Parsons, 2018). Given that SWOT analysis is the basis for developing strategic plans at any level, such an analysis makes it possible to assess the country's ability to withstand external threats, while contributing to the development of the food industry by focusing its policies on strengthening its advantages.

From the conducted SWOT analysis and the formed matrix it is obvious that the main problems for the development of the food industry are its raw material export orientation and non-compliance with international standards, which block the entry into the international markets of food production in the domestic production. Also, on the basis of strengths and opportunities, a priority strategy for the development of the food industry is formed, and weaknesses and threats deserve special attention from the state. Using strengths can help fill gaps in development and overcome external threats. Therefore, the main task of the country is to create a balanced scenario of development of the food industry of Ukraine in the conditions of the implementation period.

With regard to the prospects for the development of Ukraine's food industry, it is obvious that the strategic growth of exports of the food industry of Ukraine is, on the one hand, driven by tremendous global demand and, on the other hand, by the provision of sufficient raw material base, natural and climatic potential, human resources and successful experience of Ukraine in this sector. According to statistics (State Statistics Service, 2015-2019), exports of food products are increasing annually. However, despite the positive trends in export growth, Ukraine is still unable to offer competitive manufacturing products to the world. According to an analysis of exports from Ukraine in 2018, exports of food and agricultural products amounted to 18.6 bln USD, which is equal to 39.3% of total exports from Ukraine. The export of cereals

Table 1

SWOT analysis of modern development of food industry of Ukraine

Strengths (S)		Weaknesses (W)
1. Favorable natural and climatic, and natural and resource preconditions for growing raw materials; 2. Investment attractiveness associated with rapid payback and stable demand for products; 3. Stable demand for products (foodstuff – essential goods); 4. Internal market capacity; 5. Adequate labor force, human potential; 6. High level of value added in food products with deep technological or innovative processing procedure.	Internal factors	1. Raw orientation of export structure of agricultural sector; 2. Low profitability of operating activities of enterprises; 3. Non-compliance with world standards for product safety and quality; 4. Lack of financial support for processing enterprises from the country; 5. Inflation; 6. Political instability in the country (market monopolization; high levels of corruption and shadow economy, food insecurity, etc.).
Opportunities (O)		Threats (T)
1. Increase of export of products to the world markets; 2. Free Trade Area with the European Union; 3. Gradual transition to international standards and rules of trade, insurance, lending, investing, etc. ; 4. Diversification of assortment of products and trade relations, markets; 5. Global demand growth; 6. Increase in the share of foreign investment.	External factors	1. Due to political factors, the loss of traditional markets of the post-Soviet countries and the threat of further production decline; 2. Increase in the share of imported products in the domestic market; 3. Significant investment in the implementation of the HACCP system; 4. High competitiveness of foreign products compared to similar domestic ones; 5. The threat of an escalation of military-political conflict in the East of the country; 6. Increasing economic instability in the global financial markets.

Source: formed by the author based on the own researches

Table 2

SWOT analysis matrix

	O	T
S	– increasing the inflow of foreign investment precisely into the development of the food industry due to its investment attractiveness; – increasing exports of high value added food products will boost the country's national wealth, GDP, and the economy as a whole; – meeting the projected growth in global demand, the food industry has an enormous natural and climatic and resource potential to increase food production.	– free niches in the domestic market can be filled by foreign manufacturers (in case of revival of European integration relations and FTA); – although food products are characterized by stable demand, however, due to certain political factors leading to the loss of traditional markets, there is a risk of further decline in production; – the use of manpower and directing human potential to increase the competitiveness of domestic food products.
W	– non-compliance with global standards for product safety and quality must be taken into account, as this is one of the main obstacles to the functioning of the Free Trade Area with the European Union; – the transition to international standards, rules of trade, investment, etc., will provide ample opportunities to increase profitability of enterprises, improve raw materials, renewal of inventory, growth of innovation, etc.; – diversification of the range of products and trade relations will help to reduce the export of raw materials, and its use for the production of various products of the food industry with high value added.	– political instability in the country (monopolization of the market; high levels of corruption and the shadow economy, insecurity of food security, etc.) increases the risk of escalation of military-political conflict; – implementation of international standards for food quality and safety (requirements of technical regulations, HACCP system) requires considerable investment and the state should pay special attention to this and facilitate financial support to processing enterprises; – increased economic volatility in the global financial markets is threatened by rising domestic inflation (rising prices, lower purchasing power, etc.).

Source: formed by the author

remains leading (7.2 bln USD), followed by fats and oils (4.5 bln USD). The results of the analysis show that Ukraine is not actively using its potential.

4. Directions of improvement of the food industry of Ukraine

In view of the above, it can be noted that the main trend in the development of the food industry in Ukraine is to increase domestic production and exports of food products with high value added. And since the expansion of export relations depends on the state support, the role of the country in the development of the food industry is the main one. And since the expansion of export relations depends on the state support, the role of the country in the development of the food industry is the main one. In this course, the first task for the country must be the provision of production of food industry with the updated technical and innovative processing procedure.

To accomplish this task, such tools are effective, as:

- development and implementation of the program of state support of food processing enterprises;
- reduction of tax burden for enterprises introducing innovative products, production technologies, etc.;
- ensuring the proportionality of the distribution of budget support to the entities of priority food production;
- creation of a system of financial lending to small and medium-sized enterprises: low rates for loans for the construction of processing plants, compensation for part of the cost of new equipment or upgrading of old, compensation for part of the cost of raw materials, etc.;
- creation of legislative support for the protection of activities of economic entities in the model of vertical integration in the agro-food value creation chain;
- quotas on imports of raw materials or food products with low value added.

It is worth emphasizing that the introduction of more technologically innovative production of food products in Ukraine lacks investment resources. That is, the investment structure does not meet the needs of technological modernization of production. It is quite clear that the current sectoral distribution of capital investments in the food industry does not provide a solution to the problems of structural modernization of national production in the future. Based on the systematization of scientists' opinions and the model of linear regression on the forecast of food production in the near term (Bahatska,

Sheremet, 2016), we confirm the opinion that foreign investment and the exchange rate are the most important factors influencing the volume of food production in the enterprise.

Increasing production of food products with high value added opens opportunities for Ukraine to increase its exports, which in turn leads to a significant growth of the country's economy as a whole. That is, the state needs to focus its regulatory activities on the development and implementation of a strategy to increase exports of high value added foodstuff. Effective tools for implementing an export strategy are: speeding up the adaptation of Ukrainian legislation to the EU legislation; fulfillment of the conditions of implementation of the Association Agreement between Ukraine and the EU; acceleration of the process of harmonization of national standards and technical regulations with the European and international standards; ensuring the effective development and implementation of reforms; using of market instruments of state influence; monitoring the quality of state regulation; creating a level playing field and competition in the market for large and small manufacturers.

Also, it is necessary to focus on creating a system of protection the national producers. These measures include: providing advantages and preferences for the Ukrainian producers among foreign, in the food market; strengthening and developing the internal market by increasing real incomes of citizens; introduction of an effective food subsidy system, state support for the implementation of projects to promote the consumption of domestic food products by the population, taking into account the best foreign practices; signing of favorable trade regimes for the Ukrainian exporters by concluding bilateral agreements by Ukraine in compliance with the most favored nation regime, etc.

The necessity of such measures is connected with the fact that at the moment of free movement of goods across the border of Ukraine, our country does not find itself in such a situation that we export raw materials, and buy finished goods with high value added from a foreign producer who will fill free niches with food industry goods it will displace non-competitive domestic producers in the Ukrainian market and in general. Therefore, the state should take these factors into account and establish its policy on the development of the food industry based on the principle of balancing the increase of exports of high value added products

and promoting the increase of their production in the country, simultaneously creating conditions for the development of production by domestic producers, providing them with adequate support and protection.

5. Conclusions

As a result of the conducted research it is established that the development of the food industry of Ukraine at the present stage is characterized by the presence of a large number of problems that need urgent solution. It has been argued that the country should ensure the effective development of the food processing sector of the economy, since the food industry retains an avant-garde role among the branches of the national economy of Ukraine and is the main instrument of the state in achieving the perspective goals of the socio-economic development of the country.

Considering the above-mentioned prospects for the development of the food industry and the conducted SWOT analysis, it is established that the country should consider the food industry as a cornerstone of economic prosperity and set a task to support and strengthen the position of the Ukrainian producers in the industrial markets of other countries. As a consequence, it will accelerate the quality of structural transformations, increase the motivation for innovation and the technical re-equipment of production in favor of high value added goods.

Proposals to assist the country in increasing the production and export of food products with high value added are formed on the principle of timeliness and in the medium term, their implementation will significantly improve the efficiency of development of the food processing sector of the country's economy and ensure its further innovative growth.

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