

STATE GOVERNANCE FOR UKRAINE'S GROWTH AND DEVELOPMENT: TRADE ASPECT

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Abstract. The quality of a country's governance and public administration is a key factor in its economic performance and the well-being of its citizens. *The objective of the paper* is two-fold: *first*, to substantiate the importance of the good and strong state governance for efficient functioning of the national economy; *second*, to analyze the basic indicators of Ukraine's economy and its foreign trade, as well as to come up with the possible solutions to the identified problems. *Methodology.* Careful reading and examination of the conclusions made in theoretical and empirical works on state governance and government regulation by the Ukrainian and foreign scholars served the basis of the research at the initial stage. The data, taken from the official site of the State Statistics Service of Ukraine, served as the information source for using various methods, e.g.: mathematical, statistical, etc., which resulted in the analysis of the trends of the basic indicators of the economy of Ukraine and its foreign trade: GDP and gross external debt, exports/imports/turnover of goods/services and goods and services taken together; dynamics of the balance of trade in goods/services, as well as goods and services taken together; exports to imports ratio (goods and services). *Results.* The share of exports of goods in all exports of goods and services of Ukraine has been increasing and in 2021 it reached 84%. The results show that: *first*, the trend of the volume of exports of goods for the period of 2016-2021 is $y=5.11x+31.177$ while that of services for the same period is $y=0.5986x+9.9367$; *second*, the balance of trade in goods has been negative since 2005 (except 2015), and continues to be negative throughout the analyzed period; *third*, the share of the goods with high-added value in exports has been declining. The in-depth analysis allows to conclude that in the conditions of the growing gross external debt of Ukraine (e.g., for the period of 2006–2021 the trend is $y=2811.1x+90308$ while that of GDP for the same period is $y=823.65x+135155$) it is essential: firstly, to follow the trade strategy of the EU which focuses on exports of services as compared to goods; secondly, to improve the commodity composition of exports so that the goods are value-competitive as opposed to price-competitive. *Practical implications.* It's substantiated that the trade policy is to be formulated and implemented so that foreign economic activity of Ukraine is more services-oriented and science-and-technology based. *Value/originality.* The country is to occupy a more decent place in the world division of labor and is to be reintegrated into the world economy in the interests of the Ukrainian people.

Key words: government, state governance, public administration, government regulation, foreign trade policy, basic trade indicators, economy of Ukraine.

JEL Classification: H10, F10, H13, H60, F02

1. Introduction

Modern socio-economic transformations of planetary scale are significantly changing the place and role of the state in the local, national, and global dimensions, which increases the importance of discussing the problems of transformation of its functions in the context of globalization (Grytsenko, 2021).

Since the end of the Cold War and the so-called triumph of capitalism (Francis Fukuyama's 'end

of history'), free-market neo-liberal economic development has become the accepted approach to economic activity across the globe, and the supra-national institutions (the International Monetary Fund, the World Bank, and the World Trade Organization) have actively sought to encourage the policies in this respect across the globe, which presented serious challenges to the very basis of governance in the world today: the nation-state (Jones, 2006, p. 9-12). However, contrary to

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the expectations of the supporters of free trade, "the invisible hand", and the market regulation as opposed to the government regulation, as well as all the discussions aimed at convincing the scholars that the time of the state as the key player on the global field of the world has been running out (e.g., Ohmae, 2007), practical life of the leading economies has already proven the opposite – the role of the government has been strengthened and expanded (e.g., Daokui & Maskin, 2021).

Moreover, during the reforms and hard times (e.g., global financial crisis 2007–2009, COVID-19, etc.) *the effectiveness of state governance, the quality of public administration, and the success of quickly implemented policies are appeared to be the key factors in confronting a wide variety of domestic and international problems, many of which are not only of economic origin* (e.g., Korablin, 2021; Report, 2011; Bryant & Sigurjonsson, 2022; Honcharenko et al., 2020; Halasiuk, 2019).

Thus, the state, its role in organizing the life of the society, the scope of its responsibilities are undergoing transformations under the impact of the current version of the neoliberal globalization. More broadly, government finds itself modified due to many challenges, but still remains: firstly, the guarantor of its citizens' rights; secondly, the newly-modelled influential key player in market economy; third, the partaker in shaping the modern world economy. In fact, the debates on the essence of the local, national, regional, transnational, interregional, 'network', etc., as well as the world governance, its axiological dimensions are back on the agenda.

The research on the problem of the state governance, public administration, government regulation is justified not only by the increasing attention to the above mentioned issues in the scientific circles (e.g., Boltayeva & Axmedova, 2021; Grytsenko, 2021; Riabets, 2022; Radziyevskyy, 2007), but by the necessity to find the ways to improve the functioning of the Ukrainian economy. The topicality of the issue is confirmed by the Editors-in-Chief of the *Journal of Government and Economics*, D.D. Li and E.S. Maskin, who highlight the urgency of opening debates within the new field of government and economics, an emerging body of work that aims to better understand government's role, incentives and behavior in a modern market economy, as well as to gain a better insight into how government actions shape the economy's performance (Daokui & Maskin, 2021).

The objective of the paper is two-fold: *first*, to substantiate the importance of the good and strong state governance for efficient functioning of the national economy; *second*, to analyze the basic indicators of Ukraine's economy and its foreign trade, as well as to come up with the possible solutions to the identified problems.

2. Government and its role in modern market economy

The goal of this section is to demonstrate that the role of government in the market economies of the leading countries of the world has been modified, strengthened, expanded.

According to Dr. A.L. Way, Professor of Political Science, the President of the Cyberland University of North America, a government, comprised of public institutions and serving as the instrument of its overall political society, differs from all other institutions within the society. *Firstly*, the government is universal in its reach within the society, its authority extending to all members of the society. *Secondly*, the government claims a monopoly of control over the use of armed force and violence by the society and its members. *Thirdly*, if the government and society are stable, governmental decisions and actions bear the force of political legitimacy, the decisions and actions being widely recognized within the society as morally and legally binding on all of its members. *Fourthly*, the decisions of government are authoritative; i.e., they (a) are made and carried out for and in the name of the entire society, (b) are vested with the authority of the society, and (c) are binding on all members of the society. *Fifthly*, the government, in making and enforcing its decisions, authoritatively allocates the benefits and costs of living in the society. *Sixthly*, all governmental decisions and actions involve the spending of tax money and are therefore the business of the general public. Among the major functions of modern government are foreign diplomacy, military defense, maintenance of domestic tranquillity, administration of justice, provision of public goods and services, promotion of economic growth and development, the operation of social-welfare programs, etc. (Way, 2022).

American scholars Craig Volden from the University of Virginia and Alan E. Wiseman from Vanderbilt University offer an initial glimpse into substantial research questions about the market and nonmarket impacts of government and self-regulation (Volden & Wiseman, 2012, p. 36), and they conclude that one of government's most significant roles in society is to establish and enforce rules that influence how firms and individual consumers conduct their interactions. If given perfect information and total control, a social welfare maximizing government would presumably establish industry rules that ensured that the products and services being brought to the marketplace were endowed with a socially optimal level of quality. When government is not all-knowing or all-powerful, questions arise regarding how socially beneficial goods and services can emerge in a marketplace where firms have a clear incentive

to produce low-quality goods and foist them on an ignorant public (Volden & Wiseman, 2012, p. 34–36). Indeed, *government's role in the modern market economy has been expanded and it is within the scope of the national governance to ensure the proper functioning of the market: regulating financial markets, managing the monetary system, maintaining adequate market competition, protecting consumers, negotiating trade and investment agreements, and establishing and enforcing technical standards for products. Historically, governments of European city-states negotiated trade agreements and protected trade routes. So, government's role continues to expand. In China, Europe, and the U.S., for example, there is currently intense pressure for government to regulate the behavior of internet platform companies such as Facebook and Tencent* (Daokui & Maskin, 2021).

M. Bryant and T.O. Sigurjonsson from Iceland in their joint work support the idea of strengthening the state governance and government regulation for the effective functioning of the national economy: they share the lessons learned and argue that the failure of 97% of Iceland's financial system in October 2008, was not solely due to the tight coupling and complexity of the financial system but was the result of bankers and their owners, who took actions that violated system rules and regulations so that complete system failure was inevitable. The researchers explain the problem by the fact that in a brief period, Iceland went from statism to neoliberalism with profound ill effects on its financial system, its public institutions along with its relationships with other nations (Bryant & Sigurjonsson, 2022, p. 354–364). The reforms, conducted in Ukraine after the country obtained its independence, were characterized by the same mistakes, which are still to be corrected.

French scholar Agnès Festré's publication is of high relevance here as well, since it is devoted to Michael Polanyi, a very impressive and interesting scientist and philosopher, who, like his brother, social researcher, Karl Polanyi, the author of the "The Great Transformation", was very concerned, for both professional and family reasons (his mother was from Vilnius), about the economic and political situation in the Soviet Union and the widespread diffusion of planning ideas including in the scientific domain. The aim of her paper is to show that, by considering Polanyi's mixed vision of the market economy as embedded in his broader pursuits into the nature of knowledge and liberalism, one can find coherence in his overall understanding of the interplay between spontaneous and organized orders of coordination, which otherwise cannot be found. One of the arguments is that Polanyi's and Hayek's views on liberalism and tacit knowledge are different, which made it possible for Polanyi to agree with Keynes

that government should intervene to fight unemployment and limit income inequalities while also upholding the concept of a self-organized economy and society in line with Hayek (Festré, 2021).

It must be noted that *growing state interventions combined with effective market mechanism functioning prove to be the most suitable during challenging times*. For example, China, as well as India, got out of the global financial crisis in a much better shape in comparison with many nations of the world, and the global financial crisis proved that "when things do fall apart, the state remains the only institution capable of mobilizing the resources needed to confront large and systemic threats. The idea that the nation state had somehow outlived its usefulness in a borderless world was never very serious. *Since the state is pivotal to establishing an inclusive social contract and strengthening participatory politics, it is both imprudent and unrealistic to reduce or bypass its role in managing economic development and change*" (Report, 2011). Ukrainian economist, Prof. S.O. Korablin in his study concludes that government regulation has become a key factor in transforming COVID vaccines into the public good (Korablin, 2021).

Importantly, *the governments have been organized to get more resources for more efficient national operations, which is illustrated in the joint work of American and Chinese scientists, who suggest detailed analysis of the size of government budgets* (Daokui & Maskin, 2021). The economists display the ratio of government expenditure relative to GDP over time for key countries, including OECD and emerging market economies. The following results have been obtained. *First*, in the 250 years since the industrial revolution, *the size of government has greatly expanded* – in the mid-19th century, government budgets around the world made up 10% of GDP on average, while now it is around 39%. For the U.S., after the Civil War, the budget of the federal and local governments accounted for 7% of GDP, while today, the ratio is 38%. *Second*, across countries, *high-income nations on average have larger governments per capita than low-income ones*, e.g. the average ratio of government budget to GDP among developing countries in 2018 was around 32%, whereas that of for high-income – about 44%. Just to make one comparison: the 2010 budget of the government of India, a large and low-income emerging market economy was 27% of GDP, whereas the U.S. government budget that year was around 43% of GDP. *The third result is that for the past four decades, high-income countries have demonstrated a relatively stable government size as measured by the share of government budget in GDP*. When an economy reaches an income level of around \$10,000 to \$12,000 USD per capita, the ratio tends to stabilize (Daokui & Maskin, 2021).

Specifically, *the concept of neoliberal free-market has been widely reexamined and reshaped in the scientific literature in the beginning of the 21st century.* For example, James K. Galbraith criticizes even the concept of market: "The word market is a *negation*. It is a word to be applied to the context of any transaction so long as that transaction is not directly dictated by the state. The word has no content of its own because it is defined simply, and for reasons of politics, by what it is not. The market is the nonstate, and thus it can do everything the state can do but with none of the procedures or rules or limitations. It is a cosmic and ethereal space, a disembodied decision maker – a Maxwell's Demon – that, somehow and without effort, balances and reflects the preferences of everyone participating in economic decisions. It is a magic dance hall where Supply meets Demand, flirts and courts; a magic bedroom where the fraternal twins Quantity and Price are conceived. It can be these things precisely because it is nothing at all" (Galbraith, 2008, p. 19–20).

Nevertheless, it's logical to agree with the Academician of the National Academy of Sciences of Ukraine, Prof. A.A. Grytsenko, who explains that *the market as a mechanism for reconciling the private interests of economic entities and the state as the embodiment of general economic interests are complementary structures.* In the study he proves that the main economic functions of the state are: expression and representation of general economic interests, ensuring economic needs of society as a whole and protection of public economic interests, while all the other functions are derivative (Grytsenko, 2021).

Finally, the Editorial Board Member of *the Journal of Governance and Regulation* M.M. Ali stresses that economic performance as a whole of the world depends on peace, tranquility, socio-economic conditions, health services, cultural and demographic stability, human rights protection which will provide the effective economic diplomacy with transparency, accountability, and fairness. The scholar underlines that to bring this stability, *the world economy and the national economies need strong good governance with ethical values, morality, humanistic approaches, corruption-free, serious about environment protection, etc.* (Ali, 2022, p. 198).

3. Governmental promotion of economic growth as the key objective of the state

The current section focuses on the governmental promotion of economic growth as the key objective of the state in the globalized world economy since good and strong state governance contributes to much more efficient functioning of the economy at any stage of its development while strong institutions, high quality public administration are important

prerequisites for successful delivery on national objectives and policies.

The central government of a modern society seeks to facilitate and foster the growth and development of the nation's overall economy. The government actively pursues public policies – especially in the areas of taxation, foreign trade, and regulation of and subsidies for domestic economic activities – designed to promote increased capital formation and industrial production, higher levels of commercial activity within the society, a more favorable balance of trade with foreign nations, and hence low levels of unemployment and widespread economic prosperity among the members of its own society. Governmental promotion of economic growth has been around for approximately 500 years (Way, 2022).

Theoretically, *governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them* (World Governance Indicators, 2022). *The quality of a country's governance and public administration is a key factor in its economic performance and the well-being of its citizens.* In the EU, strong institutions and high quality public administration in Member States are important prerequisites for successful delivery on the EU objectives and policies. Today, DG REFORM is engaged in over 1 000 reform projects in all 27 EU countries. Areas of intervention include the central administration, local administration, digital government, public procurement, better regulation, the judicial system, the fight against corruption and fraud and the better absorption of European Structural and Investment Funds (Directorate-General for Structural Reform Support, 2020, p. 2, 11).

Taking into account the above mentioned, it is nevertheless obvious that *good and strong governance presupposes formulation and implementation in a timely manner of a wide variety of national-level complimentary policies, e.g. trade, integration, industry, science & innovation, transport, education, health, culture, military, demography, food, energy, ecology, employment, pension, etc., aimed at targeting certain state objectives. The progress is made when the better economic, technological, and social indicators are observed in the national economy functioning, standard of living of citizens/society is improved, basic human rights are guaranteed, public welfare is achieved.*

As K. Riabets emphasizes, the practical implementation of public administration functions is carried out by a system of public administration bodies, the level of efficiency of which depends on the correctly defined in specific situations the range

of management functions and the understanding of their essence. *The functions are closely related to the areas of public administration in which the goals and objectives of the state are to be met, and where planning, organization, analysis, forecasting, regulation, coordination, and control play their important roles* (Riabets, 2022).

Before considering the economic indicators and ways for improving the country's efficiency, it is important to highlight that *the objectives the government expects to achieve through promotion of economic growth and development include* (1) increasing the industrial and military strength of the society, (2) ensuring the society's unity and stability and the government's legitimacy, (3) enhancing the political support enjoyed by the incumbent officeholders in the government – political support provided by individuals and groups benefiting from the high employment levels and widespread economic prosperity, and (4) securing a broad tax base that will enable the government to fund its activities and programs (Way, 2022).

For Ukraine, it is evident that formulation of government policies requires careful consideration of a variety of economic and non-economic parameters, and responsible leadership, while building the future, should take into account the country's present development and its economic past, as well as make comparative analysis of the results of practical implementation of reforms conducted in different countries across the globe. It is also essential to recognize that government regulation or deregulation can bring the economy to prosperity or destruction.

For example, the current state of the economy of Ukraine is the result of reform and transformation mistakes: Ukraine was one of the most developed republics of the USSR and its GDP is the third largest in the post-Soviet space, after the Russian Federation and Kazakhstan. Even despite prolonged economic hardship, Ukraine retains important industrial capabilities in the fields of steelmaking, aerospace, shipbuilding, chemicals and the manufacture of military hardware. Moreover, thanks to well-educated human capital and the arrival of foreign investments, it has created a dynamic high-tech sector with comparative advantages in the production of software, IT services, and R&D activities. Thus, as an emerging economy with a great deal of potential, Ukraine is far from being a peripheral backwater (Alonso-Trabanco, 2022).

Relevant in this respect is the recently conducted research "The political economy transition in a developing country" focused on the Lao People's Democratic Republic economic transition from a centralised economy to a market economy. The purpose of the joint study is to investigate the variables that influence such transitions and the resulting

modifications (Sarkorn et al., 2022). The results demonstrate that such transition depends on both external (the role of Laos, the influence of China, and the roles of international organizations) and internal factors (mechanisms of state ideology, economic reform, legislation and regulations, and the adaptation of the country's leaders from one generation to the next). The research puts special emphasis on the ideological mechanism, new economic reform policies, legislation and regulations, economic transition history, etc. (Sarkorn et al., 2022, p. 339–348).

In this regard, Ukraine can take some lessons from experience of the Lao People's Democratic Republic economic transition. For example, ideology or some axiological component is still critical and will always be an essential part for ensuring state governance effectiveness. Furthermore, *internal factors should be of no less significance in comparison with the external ones since any national economy is to be integrated or reintegrated into the world economy first and foremost in the interests of the nation itself* and then, of course, the world. As it has already been emphasized in the works of domestic and foreign researchers, Ukraine's economic path has been characterized by the negative development trends for thirty years already. The neoliberalism ideology played its role in the process of the market economy creation: however, not all nations followed the offered set of recommendations and some transition economies analyzed them properly. The reforms resulted in the drastic decline of the national economy, emergence of oligarchs. The country enjoyed the high tech production, huge industrial manufacturing capabilities in strategic sectors, but at present it is oriented first and foremost on the extraction of raw materials and their primary processing. The great number of highly skilled professionals could not find job corresponding to their qualifications, and the majority of them was forced either to work in trade or emigrate abroad. The current economic situation is characterized by demographic crisis, poor GDP dynamics, high unemployment rate, low wages, gross external debt growth, dependence on imports, raw-materials exports, deindustrialization, capital outflows, tax evasion, etc. (Sidenko, 2018; Radziyevska, 2018; Halasiuk 2019). Nevertheless, there is always the way out for the country determined to find it, and it's of critical significance to come up with the complex solution. Today, in the modern world, in the conditions of the Fourth industrial revolution and the implementation of the sixth technological mode, the economy finds itself transformed due to these fundamental changes. The determinative factor has become the right time for the introduction of the reforms, which depends predominantly on the actions of the state and the national business elite. These urgent actions will promote the formation

of the socio-market economy, the knowledge economy, approval of justice and high technology (Radziyevska, 2018).

Good and strong state governance is a necessary requirement for implementing reforms, and reform management is a central element of state administration. There is often a need to strengthen the steering, coordination and planning at the centre of the government to ensure effective public management. Such improvements allow for an effective monitoring of reforms and for the early identification of strategic issues (Directorate-General for Structural Reform Support, 2020, p. 5). China may also serve as an example to explain the point on the necessity of elaborating the right policy and putting it in practice at the right time since at different stages of this country's development, the importance and advantages of foreign trade in China's economic policy differed significantly. The active development of foreign trade in the first 10-12 years, especially with the socialist countries, became more stable during the "Cultural Revolution", when China began to modify ties with the outside world, considered as a source of currency inflows (military equipment, industrial equipment, etc.) for the purchase of technology samples and their subsequent production in China itself (Boltayeva & Axmedova, 2021).

In summary, *good and strong governance plays the key role in improving and contributing to much more efficient functioning of the state at any stage of its development, no matter whether the economy of it belongs to the category of the First, the Second or the Third world countries.*

4. Government regulation and foreign trade of Ukraine

The section's objective is to analyze the basic indicators of Ukraine's economy and its foreign trade and to come up with the possible solutions to the identified problems.

The analysis of the dynamics of Ukraine's exports and imports of goods and services during the period of 2016–2021 (tables 1 and 2) shows that the country has not solved yet one of its key problems – *the trade deficit in goods, which reached 10.7 bln USD in 2019, the result of great surplus of high value-added imports of goods over exports comprised by agriculture, metals, and other low value goods.* The balance of trade in goods has been negative since 2005, except for 2015 when it was positive of 610.7 mln USD (Sardak, 2019). As table 2 demonstrates, *the balance of trade in goods has been negative throughout the analyzed period of 2016–2021: in 2016 it was negative of 2888.1 mln USD; in 2017 – 6342.5; in 2018 – 9852.6; in 2019 – 10745.6; in 2020 – 5144.3 and in 2021 – 4770.8 mln USD.*

The balance of trade in services has been positive during the period of 2016–2021, e.g.: in 2016 – 4541.5 mln USD; in 2017 – 5238.2; in 2018 – 5329.1; in 2019 – 8633.7; in 2020 – 5670.7 and in 2021 – 4809,1 mln USD, which greatly contributed to decreasing the trade deficit in goods and services taken together, and even resulted in the positive balance of foreign trade in 2016 (1.8 bln USD), 2020 (0.5 bln USD), and 2021 (0.04 bln USD).

Table 1 indicates that the trend of the volume of exports of goods for the period of 2016–2021 is $y = 5.11x + 31.177$

Table 1

Dynamics of exports and imports of goods and services of Ukraine, 2016–2021, bln USD

	2016	2017	2018	2019	2020	2021	Trends 2016–2021
Exports of goods	36.4	43.3	47.3	50.1	49.2	68.07	$y = 5.11x + 31.177$
Exports of services	9.9	10.7	11.6	15.7	11.5	12.79	$y = 0.5986x + 9.9367$
Exports of goods and services	46.3	54.0	58.9	65.8	60.7	80.86	$y = 5.7086x + 41.113$
Imports of goods	39.2	49.6	57.2	60.8	54.3	72.84	$y = 5.3114x + 37.067$
Imports of services	5.3	5.5	6.3	7.0	5.9	7.98	$y = 0.4371x + 4.8$
Imports of goods and services	44.5	55.1	63.5	67.8	60.2	80.82	$y = 5.7486x + 41.867$
Turnover of goods	75.6	92.9	104.5	110.9	103.5	140.91	$y = 10.421x + 68.243$
Turnover of services	15.2	16.2	17.9	22.7	17.4	20.77	$y = 1.0357x + 14.737$
Turnover of goods and services	90.8	109.1	122.4	133.6	120.9	161.68	$y = 11.457x + 82.98$

Source: author's calculations based on the State Statistics Service of Ukraine database. <https://ukrstat.gov.ua>

Table 2

Dynamics of balance of trade in goods and services of Ukraine, 2016–2021, bln USD

	2016	2017	2018	2019	2020	2021
Balance of trade in goods	-2.8	-6.3	-9.9	-10.7	-5.1	-4.77
Balance of trade in services	4.6	5.2	5.3	8.7	5.6	4.81
Balance of trade in goods and services	1.8	-1.1	-4.6	-2.0	0.5	0.04
Exports to imports ratio (goods and services)	1.04	0.98	0.93	0.97	1.01	1.00

Source: author's calculations based on the State Statistics Service of Ukraine database. <https://ukrstat.gov.ua>

while the trend of the volume of exports of services for the same period is $y = 0.5986x + 9.9367$. The problem is that the share of exports of goods in all exports of goods and services of Ukraine makes up for more than 75% (e.g.: 78.61% in 2016; 80.19 – 2017; 80.31 – 2018; 76.14 – 2019; 81.05 – 2020), and it reached 84% in 2021. The analysis suggests that to solve the problem it is necessary to focus Ukraine's trade strategy on promoting exports of services as opposed to exports of goods. And this is not only because trade in services has been contributing to a more favorable balance of trade with foreign nations, but essentially due to a strong tendency for more than thirty years already in the developed world to switch from manufacturing-led development to services-led development.

The above mentioned point can be illustrated by the following example: in 2019, the services sector accounted for an average of 55% of GDP and 45% of employment in developing economies (Nayyar et al., 2021). Over and above that, services already accounted for 76% of GDP in advanced economies in 2015 – up from 61% in 1980 – and this share seems likely to rise. In Japan, for example, services represent 68% of GDP; in New Zealand, 72 %; and in the US, almost 80 % (World Trade Report 2019, p. 15).

Indeed, services are the backbone of the modern economy, contributing more to economic growth and job creation worldwide than manufacturing and mining activities or agriculture. Furthermore, the EU is the world's largest trader of services. In the EU's "An Open, Sustainable and Assertive Trade Policy", adopted in February 2021, it is highlighted that "...the nature of trade will continue to evolve... it will become more innovation-driven, supported by intellectual property (IP) protection, with an increasing role of services trade compared to goods" (Services in the EU's trade strategy, 2022). Since Ukraine intends to become the member of the EU, it's crucial to follow the example and examine the possibilities of enhancing exports of services, especially in view of the fact that services in the EU's trade strategy occupy prominent position.

Without a doubt, manufacturing has been the surest way for low- and middle-income economies to

reduce poverty and create good jobs. But developing nations have increasingly been redirecting their focus to the services sector to catch up with their developed counterparts. Foreign scholars Prakash Loungani, Chris Papageorgiou, and Ke Wang stress that services exports from developing countries have grown tenfold since 1990, and at twice the rate of services exports from advanced economies; hence, developing countries' share has increased from 3% in 1970 to almost 20% in 2014. This increase is not just due to higher exports of traditional services, such as travel and transport, but is also due to modern technology-enabled services, e.g. business services, computer and information services, financial services, etc. (Loungani et al., 2017).

Similarly, World Bank experts G. Nayyar, M. Hallward-Driemeier, E. Davies in their book underline that throughout history, industrialization has been synonymous with development. However, the trend of premature deindustrialization and the spread of automation technologies associated with Industry 4.0 has raised concerns that the development model based on export-led manufacturing seen in East Asia will be harder for hitherto less industrialized countries to replicate in the future (Nayyar et al., 2021). They mention that *the promise of services-led development in the future will be strengthened to the extent that technological change reduces the trade-off between productivity and jobs, and growth opportunities in services with potential for high productivity do not depend on a manufacturing base* (Nayyar et al., 2021). Recent evidence shows that services seem to experience productivity growth through the same mechanisms that traditionally have made manufacturing the key driver of growth (Loungani et al., 2017). *As manufacturing's share of economies across the development spectrum recedes, the services sector helps low- and middle-income countries to catch up with high-income countries* (Nayyar et al., 2021).

Nevertheless, for Ukraine with the share of 84% of exports of goods in 2021 in all exports of goods and services, negative balance of trade in goods (Table 2)

Table 3

Dynamics of GDP and gross external debt of Ukraine, mln USD, 2006–2021

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP	107753	142719	179992	117228	136419	163160	175781	183310	131805
Debt	54512	79955	101659	103396	117343	126236	135065	142079	126308
Debt/GDP, %	50.6	56.0	56.5	88.2	86.0	77.4	76.8	77.5	95.8

Table 3 (continued)

	2015	2016	2017	2018	2019	2020	2021	Trends 2006–2021
GDP	90615	93270	112154	130832	153781	155582	200090	$y = 823.65x + 135155$
Debt	118729	113518	116578	114710	121739	125690	129711	$y = 2811.1x + 90308$
Debt/GDP, %	131.0	121.7	103.9	87.7	79.2	80.8	64.8	$y = 1.924x + 67.015$

Source: author's calculations based on <https://index.minfin.com.ua/economy/gdp/> & <https://index.minfin.com.ua/economy/foreigndebt/>

Table 4

Dynamics of volume (mln USD) and share (%) of Ukraine's exports of value-added goods (commodity groups 84-90) in exports of all goods, 2014–2021

	2014	2015	2016	2017	2018	2019	2020	2021
Total exports of goods of commodity groups 84-90	7358,8	4776,0	4337	5051,3	5430,6	5524,8	5403,7	6105,3
Total exports of all goods	53901,7	38127,1	36361,7	43264,7	47335,0	50054,6	49191,8	68072,3
<i>The share of exports of commodity groups 84-90 goods in exports of all goods, %</i>	13,65	12,52	11,93	11,68	11,5	11,04	10,98	8,97

Source: (Radziyevska, 2022)

and the growing gross external debt (Table 3), it also means that *the trade policy is to ensure that the Ukrainian goods on the world markets are more value-competitive as opposed to price-competitive.*

With this in mind, it is easy to agree with Prof. Nathaniel Lane, whose research is dedicated to the political economy of development, the economics of the state, industrial policy, in particular – on the industrial policies behind the East Asian miracle. In one of his recent publications *Prof. Nathaniel Lane argues that nations will continue to shape their economies through industrial policy.* The scholar, through careful research design and attention to institutional detail, stresses that emergent studies are rapidly expanding what we know – and updating what we thought we knew – about industrial policies. The economist states that the tools from policy evaluation allow us to study the impact of endogenous industrial interventions, and he comes up with a proposal *to take industrial policy more seriously.* Prof. Lane concludes that it requires not only more serious evaluations of past policy but also a reevaluation of past empirical work and consensus (Lane, 2020).

The results, revealed in the recent study on Ukraine's foreign economic activity, indicate (table 4) that *the share of exports of goods with high added value has been decreasing while the share of imports of those goods has been increasing* (Radziyevska, 2022). In this regard, the government is to pursue public policies to promote increased industrial production – and in the area of foreign trade it means growing volumes of high-added value exports – which, definitely, requires government regulation. Since the objective of the government is to increase the industrial and military strength of the society (Way, 2022), it is clear that Ukraine's trade policy should aim at improving the commodity composition of exports while focusing more on exports of services as opposed to those of goods.

In addition, it makes sense to keep in mind while formulating the trade policy that technology allows for services to be increasingly unbundled: a single service activity can now be fragmented into tasks that are done at different geographic locations, such as business process outsourcing and online banking services. As with goods, services productivity can rise

because of specialization (a finer division of labor) and scale (falling unit costs of production) (Lounyani et al., 2017).

Interestingly, in Japan, science-based foreign economic activity is an important practical factor in the development of the country. It has made Japan one of the world's economic, scientific, technological, financial and trade centers, ensuring deep integration into the world economy in the national interests (Boltayeva & Axmedova, 2021). To grow and develop Ukraine requires the inflows of foreign direct investment and their appropriate use, the active involvement in global value chains and production networks, the much more services-oriented and science-and-technology based foreign economic activity. Now, we turn to the paper co-authored by German scientists, in which they reconsider the classic relationship between trade and economic development (Gries & Redlin, 2020). The scholars' results suggest a statistically significant positive short-run and long-run global relationship between trade and income; however, a long-run relationship is observed only for high-income countries and with a relatively high degree of trade openness (Gries & Redlin, 2020).

Firstly, developing/emerging economy of Ukraine belongs to the group of lower-middle income economies, so it doesn't meet the first criterion of high-income countries. Secondly, regarding the degree of openness, there have been debates for quite a long time as to what extent an economy should be opened to world markets. For example, A.R. Alotaibi and A.V. Mishra define Trade Openness as the ratio of exports plus imports over GDP (Alotaibi & Mishra, 2014). For Ukraine in 2021, according to the above mentioned approach to calculating this indicator (Tables 1 and 3), it means that the economy is too opened already and has been too opened for the period under analysis. To allow the national economy to be so opened it's necessary for the state to be highly developed and to belong to the category of high-income countries. The high price competitiveness of raw material exports is mainly attained due to the exchange rate and low wages which means that Ukrainians work more but are paid less while the national economy is losing its potential (Pustovoi,

2021). In international markets, value competitiveness is inherent in a relatively small number of product groups of Ukraine, that is why the national economy policies should aim at improving specialization of the country (Halasiuk, 2019), and producing goods with increased technological complexity. The beginning of this process will mean the emergence of new qualitative changes in the economy, and the effectiveness of public policy of economic reform (Pustovoit, 2021). American and Chinese scholars also agree that one recent stylized fact that has emerged is that in countries with competitive new industries such as telecommunications, internet-related businesses, and electric vehicles, government seems to push more for economic openness (Daokui & Maskin, 2021). At the same time, many qualitative papers also draw an association between successful industrial policy and autocracy, given the successful deployment of industrial interventions across Asia (Lane, 2020). Thus, the effective mechanisms of the state regulatory policy need to be put in practice so that the state control over foreign trade operations in Ukraine is maintained.

5. Conclusions

The role of government in the market economies of the leading countries of the world has been modified, strengthened, expanded. The statistical indicators of state budget expenditures and the widening scope of responsibilities demonstrate that government is successfully meeting all the challenges thrown at it by strengthened integration processes in the conditions of the aggravation of the contradictions of globalization and regionalization.

The current paper reveals that the market reforms were much more successful in the countries where the key role in the economy was played by the government. During the reforms and challenging times the efficient state governance, the strong institutions, the high quality public administration, the quickly and successfully elaborated and

implemented policies are critical for confronting a wide variety of domestic and international problems, many of which are not only of economic origin. The central government of a modern society seeks to facilitate and foster the growth of the nation's overall economy while good and strong state governance with ethical values, morality, humanistic approaches, etc. contributes to better functioning of the national economy at any stage of its development.

The analysis of basic economic indicators of Ukraine's foreign trade allows to conclude that the trade policy should aim at improving the commodity composition of exports while focusing more on exports of services as opposed to those of goods.

Specifically, the results have shown that the balance of trade in goods has been negative while the share of exports of goods in all exports of goods and services of Ukraine has been increasing. The share of the exports of goods with high added value has been decreasing. So, the trade policy is to ensure that the Ukrainian goods on the world markets are more technologically complex and value-competitive as opposed to price-competitive. At the same time the balance of trade in services has been positive which greatly contributed to decreasing the trade deficit in goods and services taken together, and even resulted in the positive balance of foreign trade in 2016, 2020, 2021. In the conditions of the growing gross external debt with raw materials exports prevailing like those in the LDCs, it's crucial for Ukraine to change its path towards the group of the countries of the First World, which focus in their exports predominantly on services and high value-added goods.

Good and strong state governance will enable Ukraine to take a more decent place in the system of the world division of labor and to join the group of highly-developed economies. To grow and develop Ukraine requires the inflows of foreign direct investment and their appropriate use, the active involvement in global value chains and production networks. The new package of reforms is needed where special emphasis is put on industrialization and services-led development.

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