

UNLOCKING UKRAINE'S INDUSTRIAL AND EXPORT POTENTIAL: KEY INFANT INDUSTRIES FOR SUSTAINABLE GROWTH

Igor Guzhva¹, Viktor Halasiuk², Yevhen Ivanov³

Abstract. The article looks into identifying promising sectors for industrial and export diversification in Ukraine, aiming to address the challenges posed by its inefficient international specialisation in raw materials and primary processed goods. By applying the concept of infant industries, the study provides a rationale for targeted sectoral policies designed to facilitate Ukraine's more productive integration into global value chains and, consequently, foster sustainable economic development. The research is methodologically grounded in the theory of economic complexity and the product space framework, utilising their analytical tools to estimate opportunities for industrial and export diversification in Ukraine. The gravity model was additionally employed to evaluate the unrealised export potential of manufacturers within infant industries. The findings of the study identify several product groups as promising areas for the diversification of Ukrainian exports, based on available opportunities and anticipated benefits. These include various rubber and plastic products, boilers, pumps, laboratory equipment, centrifuges, road equipment, agricultural machinery, bearings, electric motors and generators, transformers, lighting equipment, as well as certain devices and apparatuses. Ukrainian manufacturers in these industries have established modest production and export capacities, many of which have been severely impacted by the full-scale war that began in 2022. Despite these challenges, their current presence in the global market supports the classification of these sectors as infant industries with substantial potential to evolve into important drivers of the country's export growth. The article proceeds to discuss the most effective tools and mechanisms for enhancing the production and export potential of these industries. It evaluates existing government instruments and policies that could be leveraged to support the scaling of production, expand export capabilities, and attract investment in the economy's priority sectors. The study concludes that, given the severe constraints on available resources and the limited capacity for state-led economic stimulation, scarce resources should be strategically allocated to support the most promising industries, as identified through rigorous and objective analysis. It is essential to systematically monitor the utilisation of state support and its impact on the economic performance of these sectors. Additionally, the list of priority industries should be periodically reviewed to reflect shifts in global economic trends and the evolving structure of the Ukrainian economy.

Keywords: infant industry, economic complexity, international specialisation, export diversification, global value chains.

JEL Classification: O14, F14, L52

1. Introduction

In the contemporary globalised economy, the structural composition of national economy and the patterns of international specialisation are pivotal in determining both the standard of living and a country's

influence in international relations. The industrial sector is widely recognised for its unique and indispensable attributes, which clearly distinguish it from other economic sectors and position it as a foundational element of effective economic systems globally (Cresti

¹ State Research Institute of Informatisation and Modelling of Economy, Ukraine
E-mail: mfertua@gmail.com

ORCID: <https://orcid.org/0000-0002-6281-5788>

² State Research Institute of Informatisation and Modelling of Economy, Ukraine
E-mail: halasiuk@icloud.com

ORCID: <https://orcid.org/0009-0001-0467-4956>

³ State Research Institute of Informatisation and Modelling of Economy, Ukraine (*corresponding author*)

E-mail: eivanov.dndiime@gmail.com

ORCID: <https://orcid.org/0000-0001-8076-4374>



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and Virgillito, 2025). Consequently, the development of efficient and technologically advanced industrial production remains a critical determinant of stable and sustainable economic growth. This is particularly relevant for deindustrialised countries that, for various reasons, have fallen behind in global economic competitiveness (Rocha, 2018). For these nations, revitalising and modernising industrial production is not merely an economic priority but also a strategic imperative to regain competitiveness, foster innovation, and secure long-term prosperity in an increasingly interconnected and technology-driven world.

A commodity-based export orientation not only constrains national income but also introduces significant economic instability, primarily due to the inherent volatility of commodity prices. During periods of declining prices, countries heavily reliant on commodity exports often experience a rapid deterioration in their terms of trade. This, in turn, exerts devaluation pressure on the national currency and exacerbates the burden of external debt, further compromising macroeconomic stability. During sustained commodity price booms, symptoms of the "Dutch disease" phenomenon frequently emerge. In such contexts, the temporarily elevated profitability of raw material sectors attracts substantial inflows of capital and labour away from more productive segments of the economy, particularly the manufacturing and service industries. These sectors consequently face not only a scarcity of essential inputs but also the adverse effects of an appreciating exchange rate. The stronger currency intensifies domestic competition with foreign producers while simultaneously undermining their competitiveness in international markets (Reisinezhad, 2024).

In the long term, the consequences of a country's specialization in raw materials prove equally detrimental, as the relative prices of commodities tend to decline progressively in comparison to manufactured goods (Jahan et al., 2021). As a result, raw material-dependent countries are compelled to export increasingly larger volumes of commodities to international markets merely to maintain the same level of imports of finished goods from abroad. This dynamic further exacerbates their vulnerability and undermines sustainable development.

While horizontal policies – such as strengthening institutional frameworks, improving the investment climate, and advancing research and development initiatives – are essential for addressing these challenges, the structural distortions within the economy also demand the implementation of a targeted industrial policy. Such a policy should prioritise the development of high-potential sectors and facilitate a strategic transition toward high-tech manufacturing industries. The identification of such sectors must be grounded in logical justification and realism, reflecting the current stage of economic development. In light of the full-scale

invasion, which has further degraded the structure of domestic production and exports, the topicality of this approach is particularly pronounced for Ukraine.

2. Literature Review

The necessity for structural transformations in Ukraine's economy, as well as the exploration of optimal scenarios for such changes, has been the focus of scholarly research by numerous academics. The scholarly contributions of Ilyash et al. (2025), Korneev (2024), Shults & Lutskiv (2024), Pidorycheva & Liashenko (2023), Sharov (2023), Ostashko et al. (2021) deserve particular recognition. Existing scholarly works emphasise that the manufacturing possesses distinct and indispensable characteristics absent in other economic sectors. These studies also examine the interplay between innovation, economic dynamics, and catching-up processes through a sector-specific lens. They analyse the most critical technological and sectoral structural distortions resulting from persistent challenges and crises within the Ukrainian economy. The authors collectively argue that, both in the current context and during the postwar period, a structural transition of the economy toward higher technological levels is an indispensable prerequisite for Ukraine's recovery. Their research seeks to identify key areas and instruments of geographically targeted regulation designed to stimulate and create favourable conditions for the postwar modernization of regional economic structures across Ukraine.

Furthermore, these works propose various mechanisms for financing postwar recovery and structural transformation, taking into account the rapid shifts in the global economic landscape. Comparative analyses are also conducted to evaluate the success of different approaches and assess the applicability of experiences from Central and Eastern European countries, as well as China, to Ukraine's domestic context. However, existing literature has yet to pinpoint the specific industries that could serve as the foundation for Ukraine's structural transformation of production and export. This oversight weakens the precision of policy recommendations, especially concerning industrial policy. The absence of such analysis underscores the critical need for further research in this area.

3. Methodology

This study employs a methodology grounded in the analysis of product space and the assessment of economic complexity to identify promising infant industries in Ukraine. The product space, visualised as a network map, reveals both a country's existing production capabilities and the adjacent goods it could potentially specialise in by utilising its established productive knowledge. According to the proponents of

this concept, goods are not merely produced to meet demand but are instead determined by a country's existing productive capacities. Products that are closely linked within this space share overlapping sets of required knowledge and capabilities (Hidalgo et al., 2007). Thus, the probability that a country will successfully produce a specific product is contingent upon its proximity, within the product space, to goods the country already manufactures.

The product space is inherently heterogeneous: products with high economic complexity – such as machinery, equipment, chemicals, and electrical appliances – are situated in a densely interconnected core. Conversely, the periphery comprises products of low economic complexity, such as mineral and agricultural raw materials, which maintain limited linkages with other sectors. The product space concept empirically establishes that a country's specialisation in goods located closer to the core correlates with greater economic complexity, higher prosperity, and expanded opportunities for the diversification of production and exports (Hidalgo, 2021).

The product space framework has enabled the development of a methodology for quantitatively assessing the economic complexity of individual products. Harvard University's *Atlas of Economic Complexity* interactively applies this methodology through three key metrics:

1) The Product Complexity Index (PCI), which evaluates the knowledge intensity and sophistication required to produce a given product. Complexity is determined by the sophistication and novelty of the know-how, as well as the quality of competencies, required for its production. Empirically, complexity is evaluated based on the number of countries that export the product. The rationale is straightforward: the fewer the number of highly diversified economies capable of supplying a product to global markets, the greater its economic complexity (Hidalgo & Hausmann, 2009).

2) The Distance to the production frontier, a score that indicates how readily a country can expand into new products, given its current position in the product space and technological level. Products requiring similar or complementary competencies and know-how are located closer to each other within the product space. The distance between products indicates the risk involved in pursuing a diversification strategy by incorporating a new product into the production portfolio. A longer distance to the target product signals that the national manufacturing must develop a broader range of new technologies, know-how, and competencies to achieve competitiveness in global markets (Pinheiro et al., 2022).

The distance metric highlights that not all new products are equally suitable as a basis for diversification, as a country's current technological

and skill base may not align with the requirements for effective production. Diversification is more likely to succeed when targeting goods that build upon technologies and competencies already present in the economy.

3) The Opportunity Gain, which measures the potential for further diversification created by adopting a new product, based on its existing linkages within the product space. This metric identifies product groups whose expansion in production and export is most advantageous, as it fosters the development of more productive, technologically sophisticated industries. Thus, OG quantifies the strategic value of specific sectors and their products in advancing a country's diversification agenda.

By plotting industries in a two-dimensional coordinate system – with the x-axis representing their distance from Ukraine's existing production pattern and the y-axis representing opportunity gain – it is possible to systematically determine the most promising directions for diversifying production and exports. The selection of priority areas is based on two key criteria: maximising opportunity gain ($OG \rightarrow \max$) and minimising the distance ($\text{distance} \rightarrow \min$) to items already present in the product space. This approach ensures a data-driven foundation for strategic diversification.

Given the limited size of Ukraine's domestic market, the expansion of export-oriented production will objectively remain a critical driver of industrialisation. Under these circumstances, it is reasonable to introduce an additional criterion for evaluating the viability of infant industries: the potential for their products to succeed in foreign markets. To assess this factor, the study employs a methodology for evaluating export potential, which identifies product groups, target markets, and suppliers with untapped opportunities for international trade expansion, while quantifying the monetary scale of these opportunities. This approach underpins the International Trade Centre's (ITC) Export Potential Map, an interactive tool that delivers up-to-date, practical insights into underutilised trade potential across products, markets, and suppliers.

Central to the map is the export potential indicator, which projects potential export volumes for 226 countries and regions, covering 4,658 product categories and target markets. The indicator is derived from a gravitational model of international trade, incorporating global demand and supply dynamics, market access conditions for a specific product (such as tariffs, non-tariff barriers, and transportation costs), and the historical trade and economic relationships between countries or regions (Sankot et al., 2023).

Unrealised export potential is defined as the discrepancy between a country's estimated export potential and its actual export levels. This gap signals opportunities to expand exports of specific

products, contingent on reducing obstacles to bilateral trade – including the elimination of tariff and non-tariff barriers, streamlining trade procedures, and lowering transport and logistics expenses. Occasionally, actual exports to certain countries within a region may surpass the estimated potential, typically due to outstanding performance in individual markets. Nevertheless, trade potential with other partners in the same region may still remain partially untapped.

A limitation of the current methodology is its reliance on the existing patterns of bilateral trade relations between the countries or regions analysed. As a result, the export potential of relatively nascent sectors may be systematically underestimated. Despite this constraint, the methodology remains a robust tool for identifying the primary avenues for export expansion over the medium term.

4. Results

Using the methodology described, Table 1 presents the top 30 product groups that represent priorities for enhancing Ukraine's production and export potential. The product groups listed primarily comprise mechanical engineering products (including electrical equipment, agricultural machinery, engines, transformers, and various types of machinery and components), chemical industry outputs (notably vulcanised rubber and plastic products), measuring and analytical instruments, as well as blood, blood fractions, and other immunological products. The complexity indices of the identified product groups generally align with their estimated opportunity gain. However, the highest potential is observed in the production of 3D printers, devices and equipment for physical or chemical analysis, parts and accessories for metalworking machinery, transmission shafts, laboratory equipment, and blood fractions, among others.

Given that the distance indicator for all product groups in Ukraine is in the range of 0.743–0.928, distance for identified product groups it can be estimated as average. However, this is not a constraining factor, as the selection is confined to product groups for which Ukraine already maintains production capacity and a stable export record. This focus is justified by empirical evidence indicating that exporting firms tend to demonstrate greater productivity and competitiveness (Segarra-Blasco et al., 2022). Entering and competing in foreign markets requires significant effort, operational efficiency, and advanced production capabilities. Furthermore, the process fosters skill and competency development through the learning-by-exporting mechanism.

In 2024, Ukraine's total exports for the top 30 groups amounted to 547.1 million USD, with the largest export items being air pumps (88.9 million USD), electrical boards (81.1 million USD), and blood and its fractions

(76.4 million USD). However, with the exception of parts for use with electric generators and electric signal and traffic controls, imports substantially exceeded exports across these categories. Consequently, the aggregate trade deficit for these commodity groups reached 4.4 billion USD.

Over the past decade, exports of several product groups within this selection have experienced substantial growth. Notable examples include compounded rubber, blood and its fractions, monofilament, automatic goods-vending machines, and electrical boards. Conversely, exports of the remaining product groups have declined, largely as a consequence of the full-scale war. However, all identified top 30 industries can be roughly classified as "infant" – emerging, high-tech sectors with significant potential that require government support to scale production. Achieving economies of scale in these industries would facilitate rapid import substitution and export growth, thereby enabling a structural shift in Ukraine's domestic production and export profile toward higher value-added products.

Beyond the development of domestic production capacities, a critical determinant of successful export expansion is the availability of sufficiently large foreign markets and effective access to them. According to the ITC Export Potential Map, Ukraine's unrealised export potential across the above identified product groups amounts to 619.2 million USD (Figure 1).

The greatest unrealised export potential was identified in the following product groups: electrical boards (127.5 million USD), blood and its fractions (66 million USD), pumps for liquids (63.6 million USD), electrical transformers (62.1 million USD), and ball or roller bearings (51.9 million USD). These product groups currently represent the low-hanging fruits for accelerating export expansion toward higher value-added goods. In contrast, for sectors such as nonaqueous pigments, instruments for measuring the properties of liquids or gases, automatic goods-vending machines, harvesting and agricultural machinery, machinery for producing printing components, the policy supporting emerging industries should prioritise import substitution, as the potential for entering international markets with these products remains limited.

It is important to note that the ITC methodology primarily highlights product groups for which there exists substantial demand among key trading partners, with particular emphasis on neighbouring countries with which stable and long-term trade relationships have been established. Consequently, these findings should be interpreted as near- to medium-term export opportunities, contingent upon government efforts to streamline trade procedures, eliminate remaining barriers to key markets, and enhance business support services – particularly in market identification and

Table 1

Top 30 product groups for infant industry development in Ukraine

Code HS4	Products group	PCI	Distance	OG	Export in 2024, thousand USD
8466	Parts and accessories for metal working machines	1.309	0.874	0.493	4 978.0
8530	Electric signal and traffic controls	1.263	0.850	0.434	2 593.4
9027	Instruments for physical or chemical analyses	1.221	0.878	0.501	1 757,9
8476	Automatic goods-vending machines	1.213	0.857	0.425	600.2
3002	Blood, its fractions, immunological products	1.208	0.878	0.453	76 441.0
8482	Ball or roller bearings	1.108	0.853	0.434	17 641.9
4005	Compounded rubber	1.028	0.830	0.336	2 720.1
8483	Transmission shafts	0.968	0.855	0.476	20 224.6
8485	Machines for layered extensions (3D printers)	0.968	0.872	0.508	329.6
8503	Parts for use with electric generators	0.944	0.825	0.300	5 894.1
8539	Electrical filament	0.926	0.846	0.376	2 451.5
8433	Harvesting and agricultural machinery	0.896	0.816	0.301	8 968.3
8428	Other lifting machinery	0.867	0.849	0.379	14 777.8
8501	Electric motors and generators	0.867	0.835	0.370	5 353.8
8414	Air pumps, compressors, fans	0.849	0.854	0.453	88 927.9
8403	Central heating boilers	0.841	0.821	0.266	9 688.7
8708	Parts of motor vehicles	0.833	0.830	0.334	34 589.2
8421	Centrifuges	0.825	0.838	0.369	24 602.3
8408	Compression-ignition internal combustion piston engines	0.796	0.857	0.401	645.3
8419	Equipment for temperature change of materials	0.788	0.866	0.475	22 397.9
8537	Electrical boards	0.749	0.821	0.274	81 080.7
9026	Instruments for measuring properties of liquids or gases	0.743	0.878	0.440	4 800.4
4008	Vulcanised rubber plates	0.731	0.815	0.255	930.3
3916	Monofilament	0.683	0.809	0.247	15 184.1
3212	Pigments, nonaqueous	0.673	0.841	0.355	400.8
4016	Other articles of vulcanised rubber	0.663	0.825	0.292	7 612.8
8504	Electrical transformers	0.638	0.829	0.321	33 891.3
8442	Machinery for making printing components	0.547	0.837	0.349	457.4
8413	Pumps for liquids	0.501	0.847	0.406	34 026.6
3926	Other articles of plastic	0.428	0.834	0.335	23 179.2

Source: (Hausmann et al., 2011; UN Comtrade, 2025)

export logistics. In the long term, the only constraints on export expansion will be the size of the global market and the intensity of competition within it.

5. Discussion

With well-defined sectoral guidelines for industrial policy implementation, existing mechanisms of state support can be more effectively calibrated. This is particularly relevant given Ukraine's recent development of a comprehensive and systematic policy to support domestic manufacturers under the "Made in Ukraine" initiative. Within the scope of this study, it is essential to highlight several mechanisms that are directly linked to the development of production and export potential.

First, industrial parks represent a critical instrument for national economic development, integrating production facilities, scientific and technological capabilities, and training infrastructure. In the context of Ukraine's current challenges – particularly martial law and the imperatives of post-war reconstruction – their role assumes strategic significance. Industrial parks

facilitate production cooperation, generate employment, drive industrial and regional modernisation, foster innovation, and enable the technological renewal of enterprises (Gulyaev et al., 2024).

Industrial parks have emerged as one of the most dynamically developing instruments for industry support in Ukraine. As of early 2026, 111 industrial parks were operational in the country, hosting 36 factories either completed or under construction. The majority of parks were established after 2022, following the legal introduction of tangible incentives for participants, including exemptions from import VAT and import tariffs on new foreign equipment, as well as non-repayable state co-financing for the development of engineering and transport infrastructure within the parks.

The regulatory and institutional framework governing industrial parks is undergoing continuous refinement. Efforts are underway to eliminate bureaucratic obstacles and streamline access to state financial support for businesses. The Ministry of Economy has also raised the criteria for initiators of new

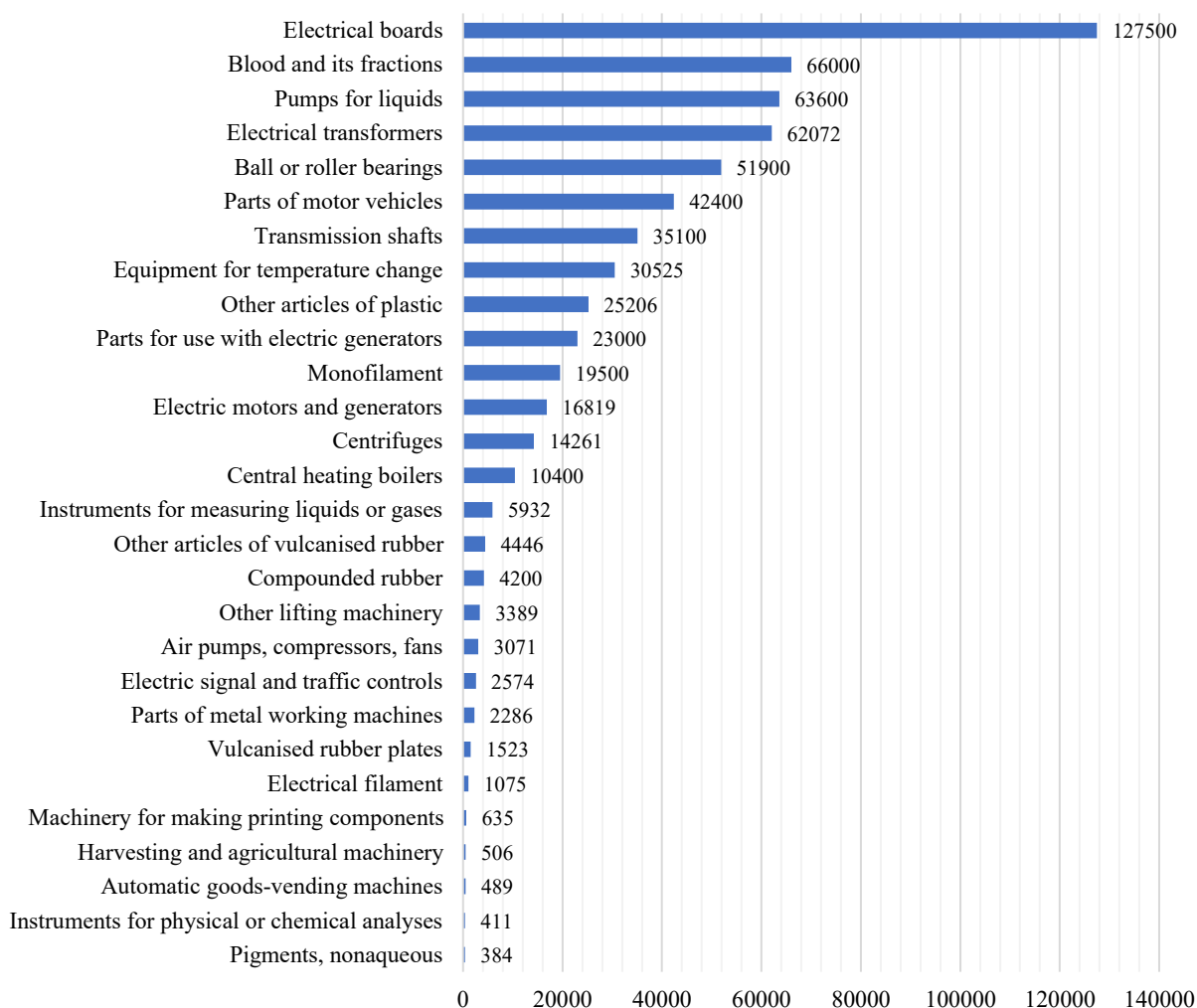


Figure 1. Unrealised export potential of selected product groups in Ukraine, thousand USD

Source: ITC. Export Potential Map

parks, particularly with regard to the development of comprehensive conceptual plans, in order to prevent the proliferation of parks that lack substantive operational activity. Additionally, the register of existing parks is periodically reviewed, and those found to be inactive are stripped of their official status.

Second, a mechanism for compensation of capital investment through taxes is currently undergoing legislative approval. This initiative would enable businesses to reclaim 30% to 70% of their capital investments – allocated to the construction of new production facilities, the expansion of existing plants, or the development of industrial infrastructure – through tax offsets. Eligibility for compensation of capital investment through taxes is restricted to investment projects within the manufacturing sector. The following categories of expenditures qualify for compensation:

- costs associated with the construction of engineering networks, engineering structures, and related infrastructure facilities;

- expenditures for the purchase, construction, modernisation, or technical and technological re-equipment of buildings and structures;
- costs for the procurement of production equipment;
- costs for the acquisition of land.

Support will be provided through offsets against the following tax obligations: corporate profit tax, import VAT on equipment, import duties on equipment, property tax, and land tax. The proportion of eligible compensation will vary according to the scale of the investment project:

- 70% for investments ranging from 100,000 euros to 1 million euros;
- 50% for investments ranging from 1 million euros to 20 million euros;
- 30% for investments ranging from 20 million euros to 50 million euros.

A distinguishing feature of this initiative is its applicability to investments made by both new and existing manufacturing enterprises, unlike

industrial parks that target only new market entrants.

Third, Ukraine's Export Credit Agency (ECA), established in 2021, is designed to mitigate risks inherent in foreign trade operations. These risks include delays in payment or the insolvency of foreign counterparties with whom Ukrainian businesses have entered into commercial agreements. ECA fulfils this mandate by providing state-backed insurance and guarantees to domestic enterprises engaged in international trade and overseas business activities.

One of the ECA's core functions is export credit insurance, which primarily aims to mitigate commercial and political risks associated with export financing. This financial mechanism is essential for safeguarding national exporters and fosters the growth of foreign trade. Beyond its benefits to enterprises, export credit insurance also holds significant appeal for commercial banks. By assuming the risks of default by foreign counterparties, the ECA enhances the conditions under which banks extend export-related loans (Syshchuk and Hrytsiuk, 2021).

In response to the full-scale war, a critical enhancement to the domestic Export Credit Agency's mandate has been the introduction of insurance coverage for military and political risks. This expansion addresses two key scenarios:

- the risk that a Ukrainian business entity may default on an investment loan due to military or political events;
- the risk that an investor may lose a direct investment or be unable to receive dividends from such an investment as a result of military or political developments.

Fourth, localisation requirements in public procurement, introduced in 2022, establish a minimum threshold for the inclusion of domestic content in the cost structure of certain goods. This policy requires that a defined share of the total cost – encompassing raw materials, components, assemblies, subassemblies, parts, works, services, and other production inputs – must be sourced domestically for eligibility in public procurement processes. The initial localisation threshold was set at 20%, with a scheduled annual increase of 5 percentage points until it reaches 40%.

Since the implementation of this mechanism, continuous monitoring has been conducted to ensure compliance with localisation requirements. Efforts have focused on identifying and eliminating schemes designed to circumvent these rules, while regulatory standards for verifying localisation levels in public procurement have been reinforced. To qualify for inclusion in the list of products with confirmed localisation, manufacturers must submit the following documentation: a tax return for the preceding year; a certificate detailing technological operations performed at the production facility in Ukraine;

evidence of the material and technical infrastructure necessary for production; confirmation of the availability of equipment and personnel directly involved in the manufacturing process.

Ongoing work aims to broaden the scope of products subject to localisation requirements in public procurement. As of early 2026, these requirements apply to 128 categories of goods within the domestic manufacturing sector, including: mechanical engineering products (such as rolling stock, railway transport equipment, urban public transport vehicles, municipal and specialised machinery, energy equipment); selected light industry products, electrical goods, metal structures, and large-diameter pipes. This framework ensures that public procurement prioritises domestically produced goods in alignment with Ukraine's industrial policy objectives.

Finally, several additional programs support domestic production and industrial development: compensation program for farmers purchasing Ukrainian-manufactured agricultural machinery and equipment, under which the state reimburses up to 25% of the purchase cost; cost-sharing initiative that covers 15% of the expense for acquiring locally produced energy, construction, wheeled, and specialised equipment; a grant program for processing enterprises, offering grants of up to 8 million UAH, specifically targeting small and medium-sized enterprises.

From the perspective of fostering infant industries, it is recommended to expand the scope of the aforementioned programs to include goods currently either excluded (such as those eligible for partial cost compensation) or only partially covered (such as those subject to localisation requirements in public procurement). This is especially important for industries where analysis has identified a primary need for import substitution. In the practical implementation of mechanisms such as industrial parks development, ECA operations, and compensation of capital investment through taxes, priority should be given to the identified sectors when allocating state aid. Additionally, organisational and legal support should be provided to maximise the participation of relevant enterprises in these preferential mechanisms. This approach will ensure that state incentives are effectively leveraged to stimulate growth in strategic industries.

6. Conclusions

Applying the economic complexity assessment methodology, priority sectors of the Ukrainian economy were identified whose development aligns with the rationale for supporting infant industries. The following products are prioritised: mechanical engineering products (including electrical equipment, agricultural machinery, engines, transformers, various types of machinery and components), some chemical

products (notably vulcanised rubber and plastic products), measuring and analytical instruments, blood, and its fractions. Products such as electrical boards, pumps for liquids, electrical transformers, and ball or roller bearings have also demonstrated significant unrealised export potential.

Given that Ukraine has already established a system of state support measures for industry, it is advisable to broaden the scope of existing programs and mechanisms to include the identified emerging industries. This includes expanding programs for partial cost compensation of machinery and equipment and localisation requirements in public procurement. Additionally, priority assistance should be provided to these industries through other

support mechanisms – such as industrial parks, compensation of capital investment through taxes, and ECA – to enhance the production and export potential of domestic industry.

Given the severe constraints on available resources and the limited capacity for state-led economic intervention, it is critically important to allocate scarce resources strategically. Support should be directed toward the most promising industries, as identified through rigorous and objective analysis, to maximise the impact of state-led initiatives on industrial development and export growth. The list of priority industries should be subject to periodic review to ensure alignment with evolving global economic trends and the changing structure of the Ukrainian economy.

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