

DETERMINANTS OF TRADE DEVELOPMENT IN UKRAINE

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INTRODUCTION

In modern business conditions, the exacerbation of military conflicts, and competition, the economy of Ukraine is undergoing significant changes and transformation. The needs of modern society are growing rapidly, so stable economic development of the country remains extremely important.

The dynamics of the number of business entities during 2012–2021 confirms the overall steady development of the business environment in Ukraine (Figure 1).

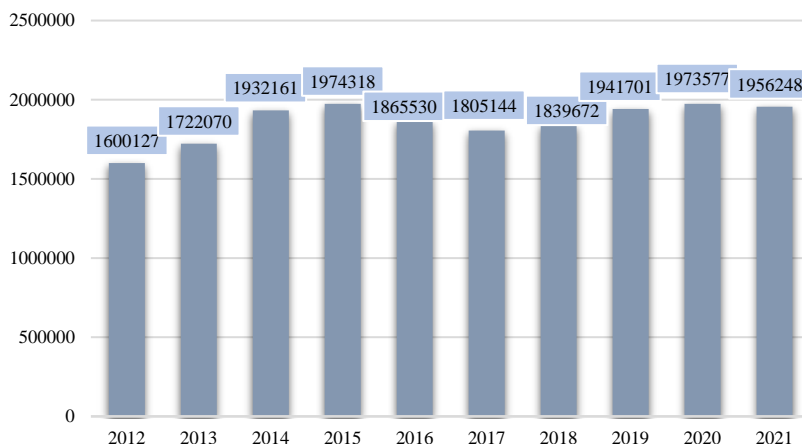


Figure 1. Dynamics of changes in the number of economic entities of Ukraine during 2012–2021

Source: compiled by the authors based on the source [1]

In 2021, economic activity was carried out by 1,956,248 entities (excluding banking institutions), which is 22.25% more than in 2012. Undoubtedly, the impact of the economic crisis phenomena, the global pandemic of COVID-19, and the military aggression of the Russian Federation are factors that not only slow down the pace of economic growth

but also create a real collapse in the economy of any country. Therefore, the evaluation of such dynamics as positive is rather conditional, taking into account the realities of today in Ukraine.

In addition, attention should be paid to the distribution of enterprises and entrepreneurs by type of economic activity. This will help to determine which sector of the economy is the most structured in Ukraine (Figure 2).

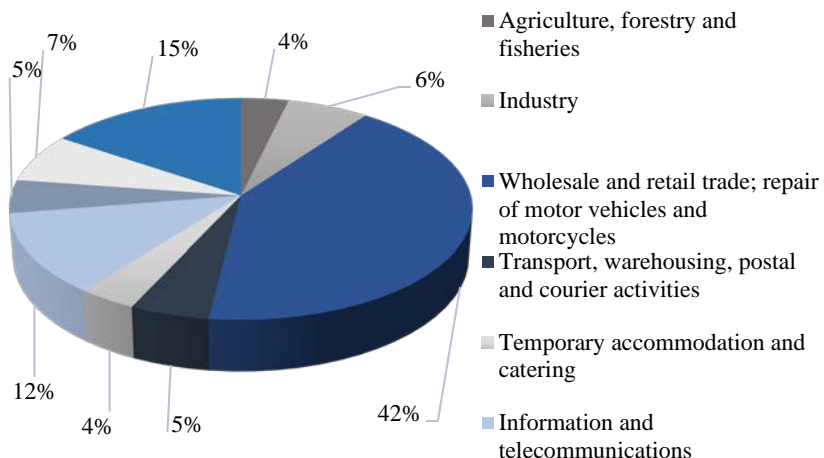


Figure 2. Structure of business entities in Ukraine in 2020 by type of economic activity

Source: compiled by the authors based on the source¹

The article establishes that retail and wholesale trade is the structuring sector of the national economy. At the present stage of development, this sector accounts for the largest share of the total number of economic entities in Ukraine.

According to the State Statistics Service of Ukraine², in 2020, the number of business entities was 1,973,577. The share of trade enterprises is 42%. Despite a steady decline in the number of business entities in Ukraine, the number of enterprises engaged in wholesale and retail trade is increasing every year. This is evidence of the transformation processes in the domestic economy and the implementation of the market environment.

¹ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

² State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

Thus, having studied the peculiarities of trade development in Ukraine, it is possible to identify and analyse the trends and phenomena that are taking place in the country's economy, so we suggest paying more attention to the activities of trade enterprises.

1. Trade as a sector of the economy: the essence and peculiarities of development in Ukraine

Trade is an important component of the economy of any country, including Ukraine. Trade development is essential for sustainable economic growth, increasing export potential, and improving the lives of the population. In Ukraine, it is driven by a number of factors (Figure 3) and has its own specific features, including the following:

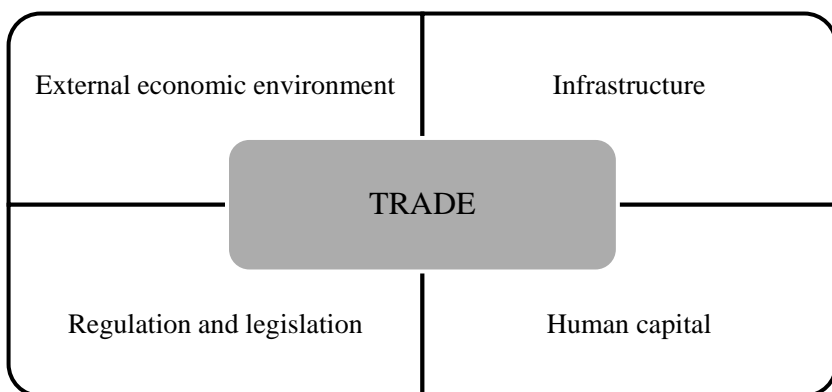


Figure 3. Factors influencing trade development in Ukraine

Source: compiled by the authors

1. *The external economic environment* is largely dependent on the state of the global economy and international economic relations. Expansion of international cooperation, conclusion of trade agreements and access to new markets play an important role. Ukraine is an active participant in global trade and maintains trade relations with various countries and regions, as evidenced by the following statistics (Table 1).

Analysing the figures, we see that in 2022, the international trade turnover of goods and services decreased by USD 49 billion compared to 2021. 2022 could have been a record year for Ukraine in terms of exports in the history of independence, as in January-February 2022, Ukrainian exports showed positive growth dynamics compared to the same period last year, with

an increase in exports of 34%. However, already in March, due to the military invasion of the Russian Federation, there was a dramatic collapse in supplies abroad (a 50% reduction).

Table 1

Ukraine's international trade in 2018–2022

Year	International trade turnover of goods and services, billion US dollars	Balance of international trade in goods and services, billion US dollars
2018	120,1	5,8
2019	131,8	3,7
2020	119,4	677,8
2021	159,6	1,6
2022	110,7	5,9

Source: compiled by the authors based on the source³

Thanks to the de-blockade of Ukrainian ports in the Black Sea, it has become much easier to export agricultural products since August 2022. The share of agricultural and food products in Ukraine's total exports increased from 36% in 2021 to 46% (in monetary terms).

2. *Infrastructure.* The development of efficient and modern logistics infrastructure, including transport networks, ports, airports, railways and warehouses, helps ensure the fast and reliable delivery of goods and services, facilitating trade growth.

In recent years, Ukraine has focused considerable attention on the development of its transport network, including road, rail and water routes (Table 2).

3. *Human capital.* Developing the education, skills and qualifications of the workforce, as well as ensuring access to a high-quality labour force in line with market needs, is an important factor for trade competitiveness and investment attraction. The main aspects affecting human capital development include:

- Education.
- Vocational training and skills.
- Health and well-being.
- Innovation and research.
- Migration and labour mobility.

³ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

Table 2

Key areas for the development of transport networks in Ukraine

Transport network	Development directions
Road routes	<ul style="list-style-type: none"> – Expansion and modernisation of existing routes. As part of the Big Construction programme, work is underway to restore, reconstruct and expand highways, especially on important transport corridors. – Construction of new main motorways. The "Improvement" project is aimed at creating new motorways, including re-routing roads to reduce congestion and improve access to cities. – Development of infrastructure for electric vehicles. The Government of Ukraine promotes the installation of charging stations for electric vehicles and encourages the use of environmentally friendly cars.
Railway routes	<ul style="list-style-type: none"> – Modernisation and reconstruction of existing railway lines. Much attention is paid to increasing the speed of traffic, expanding main lines and modernising railway stations. – Construction of new railway lines. For example, high-speed railway routes such as Lviv-Kyiv and Kyiv-Odesa have been created to reduce travel time. <p>Introduction of modern technologies and train control systems to improve the safety and efficiency of rail transport.</p>
Water routes	<ul style="list-style-type: none"> – Modernisation and expansion of port infrastructure. Much attention is being paid to deepening and reconstructing ports, in particular Odesa, Chornomorsk, Mykolaiv and Kherson, to accommodate larger vessels and increase throughput. – Development of river transport. New berthing facilities are being built and river ports are being promoted, particularly on the Dnipro and Dniester, to ensure efficient movement of goods and passengers. – Ensuring safety and environmental sustainability. Measures are being taken to reduce pollutant emissions in water basins and to introduce environmental technologies in shipping.

Source: compiled by the authors based on the source

4. *Regulation and legislation.* Effective trade regulation and legislation are important determinants of trade development in Ukraine. A stable legal environment, favourable business conditions and competition are conducive to the growth of the trade sector.

2. Analysis of key indicators characterising the level of trade development in Ukraine

Trade is mainly a type of economic activity based on the sale and purchase of goods. It is one of the leading sectors of Ukraine's economy, leading both in terms of the number of business entities and the number of employees. According to the State Statistics Service, as of 2021, trade enterprises accounted for 36.7% of the total number of all business entities and employed 25.8% of the total workforce. Trade helps to support domestic producers, increase their competitiveness, and fill the country's budget.

Table 3 shows the main indicators of retail trade in Ukraine for 2017–2021. According to the statistics, retail turnover showed positive dynamics during the study period. Its growth slowed in 2020 due to the quarantine restrictions that were in place during this period. Retail trade turnover is an indicator that includes the turnover of legal entities and individual entrepreneurs, and this indicator is also growing. The index of the physical volume of retail trade turnover has an undulating nature. Its largest increase was observed in 2019.

Before the war, the retail sector was one of the most profitable in Ukraine's economy. Retail revenue in 2021 was USD 9.4 billion. After 24 February, the number of stores decreased by 29%, and six months later this percentage was 17%, meaning that there is a positive trend in the number of operating stores. According to the State Statistics Service, retail trade grew by 10.9% in 2021, but the trade sector is suffering losses due to the war, which amounted to UAH 50 billion as of the beginning of June 2022.

In terms of the number of registered legal entities during the war, wholesale and retail trade; transport repair ranks 2nd with 2083 newly established enterprises, second only to the KVED "art, sports, entertainment and recreation". The total number of registered legal entities during the first five months of the war was 11106, i.e. the share of trade was 18.8%⁴.

Analysing the wholesale trade indicators in Table 4, we can also note a positive increase in turnover. In 2020, the share of food products in total trade turnover increased, driven by increased demand for food during the pandemic. The index of the physical volume of wholesale trade turnover also has a wave-like pattern.

Since the start of the full-scale invasion, the trade sector has faced a number of challenges:

⁴ Ukrainian business in times of war: five-month analysis (2022). *Diia.Business*. Official website. Available at: <https://business.diia.gov.ua/cases/novini/ukrainskij-biznes-v-umovah-vijni-analitika-stanu-za-pat-misaciv>

Table 3

Dynamics of key indicators of retail trade in Ukraine in 2017–2021

Indicator	The period				
	2017	2018	2019	2020	2021
Retail turnover of retailers (legal entities), UAH million	586330,1	668369,6	793479,2	868283,3	1044516,5
Share in retail turnover, %:	100	100	100	100	100
– food products	39,8	43,3	42,4	44,2	43,1
– non-food products	60,2	56,7	57,6	55,8	56,9
Retail trade turnover, UAH million	815344,3	930629,2	1094045,8	1201624	1443832,9
Index of physical volume of retail trade turnover, in % to the previous year	106	105,8	111,4	107,2	110,9

Source: compiled by the authors based on the source⁵

1. *Problems with logistics.* As of May 2022, 2,573 km of roads, 289 road bridges, 6,300 km of railway tracks, and 41 railway bridges were damaged⁶. At the beginning of the war, seaports were forced to shut down, which had a significant negative impact on Ukraine's external trade.

2. *Difficulties in supplying goods.* Before the outbreak of full-scale war, most of the professional warehouses were located in the Kyiv region (about 70-80% of the total number of such warehouses). After the outbreak of war, companies were forced to move the stocks of goods that remained in warehouses to the western regions. And while warehouses in Kyiv region reached tens of thousands of square metres, other regions did not have such space available. As a result, supply chains were affected and transportation costs increased. A large number of enterprises were forced to stop storing goods in warehouses, not only

⁵ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

⁶ Rebuilding logistics in times of war – the focus of the International Conference "Europe of the Carpathians" (2022). *The Ministry for Communities, Territories and Infrastructure Development of Ukraine (Ministry of Infrastructure)*. Official website. Available at: <https://mtu.gov.ua/news/33544.html>

because of the shortage of warehouse space but also because of the security factor, as reducing stocks minimises losses from a possible enemy attack.

Table 4

Dynamics of key indicators of wholesale trade in Ukraine in 2017–2021

Indicator	The period				
	2017	2018	2019	2020	2021
Retail turnover of retailers (legal entities), UAH million	1908670,6	2215367,4	2322176,9	2462558,8	3153187,3
Share in retail turnover, %:	100	100	100	100	100
– food products	16,5	16,1	16,9	17,8	15,6
– non-food products	83,5	83,9	83,1	82,2	84,4
Index of physical volume of retail trade turnover, in % to the previous year	102,8	103,6	99,5	104,2	94,4

Source: compiled by the authors based on the source⁷

3. *Reduced demand.* At the beginning of the war, there was a rush for food and essential goods. The Epicentr retail chain notes that food sales in March and April 2022 were 2.5 times higher than in the same period of the previous year, with the greatest demand for goods with a long shelf life: canned food, oil, pasta, flour, etc. At the same time, demand for other goods declined, for example, according to Epicentr, in the first months of the war, demand for furniture fell by 57%, for various types of flooring by 66%, and for building materials by 47%⁸. The decline in demand is also linked to a decrease in the purchasing power of the population due to rising prices and job losses.

4. *Shortage of personnel.* According to the UN, as of 1 May 2022, about 5 million Ukrainians left Ukraine, and another 7.7 million citizens became

⁷ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

⁸ From canned goods to electric scooters: how the consumer demand of Ukrainians changed during the war – analytics Epicenter Source (2022). *Portal of the Association RAU.UA*. Official website. Available at: <https://rau.ua/novyni/novini-partneriv/vid-konserv-do-elektroskuteriv>

internally displaced. This has led to a shortage of staff not only in trade but also in other sectors of the economy. In trade, staff shortages are a constant phenomenon, but given the level of migration and the fact that a large proportion of migrants are women, a large percentage of whom are involved in trade, the situation has become serious. Also, due to financial problems, many businesses are unable to pay full salaries to their employees.

5. *Limited financial resources, lack of investment.* This category includes a shortage of working capital, high rent costs, etc.

6. *Losses caused by military operations.* Destroyed buildings, warehouses, shops; loss of fixed assets; damage to inventory in retail outlets and warehouses, etc. According to a joint study by the Ukrainian Retailers Association and the Ukrainian Council of Shopping Centres, the following trade sectors suffered the most losses in the first two months of the war UAH 30.249 billion (60%) for food, with the main losses in this sector caused by damage to premises; UAH 5.833 billion (11%) for clothing and footwear, with the main losses being in stock; UAH 3.592 billion (7%) for electronics and household appliances; and UAH 1.182 billion (2%) for jewellery⁹.

Despite the challenging conditions, the retail sector is starting to recover gradually, and to make this happen faster, attention should be paid to the following areas of work: first, compensation for lost property, payment of compensation; second, further resumption of the operation of stores in safe areas; third, as noted in the article, the retail sector is experiencing a shortage of current assets, and this problem should be addressed at the state level by developing business support programmes.

3. Ukraine's place in the world economy

To determine the position of domestic trade in the global economy, it is worth paying more attention to the analysis of certain indicators. First of all, let's analyse the dynamics of trade turnover as the aggregate value of goods and services bought and sold in the domestic and foreign markets over a certain period. Consider the dynamics of retail trade turnover in Ukraine in 2020–2022 (Figure 4).

Changes in turnover during the period under review were driven by several factors:

– Development of international trade: The growth of international trade, including exports and imports, has a significant impact on trade turnover. Expansion of export markets, improvement of foreign trade conditions and increase in the volume of foreign trade also contribute to the growth of trade turnover.

⁹ Special project: which retail industries and which companies have lost the most since the beginning of the Russian invasion (infographic) (2022). *Portal of the Association RAU.UA*. Official website. Available at: <https://rau.ua/novyni/zbitki-ritejleriv>

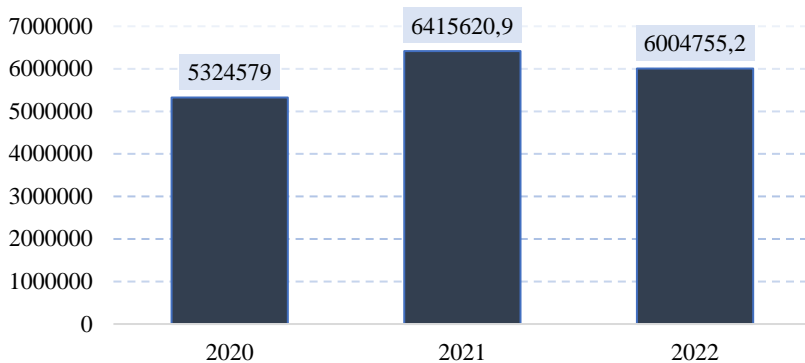


Figure 4. Dynamics of retail turnover in 2020–2022, in million UAH

Source: compiled by the authors based on the source¹⁰

– Policy and regulatory measures: The adoption of policy measures aimed at improving the business climate, reducing bureaucratic obstacles, improving the regulatory environment and attracting foreign investment also has an impact on trade turnover.

Based on the analysis of data on the structure of retail trade turnover of retailers in 2012–2021, food and non-food products are distinguished among product groups, with the share of non-food products being higher over the analysed period (Figure 5).

Based on the analysis of the indicators, it is possible to identify some trends in the development of the trade industry in Ukraine:

- growth in retail turnover and increased importance of retail trade for the country's economy;
- changes in the structure of food and non-food sales towards increased food sales;
- increase in retail turnover per capita in cities and villages of Ukraine; expansion of the types of sales channels;
- growth of retail space across Ukraine, business consolidation and reduction in the number of small retail outlets;
- geographical differences in the dynamics of retail space.

Currently, the global economy continues to recover from the crisis since the Second World War, but it is facing new challenges – the global pandemic and military aggression by Russia. In such circumstances, clear steps by the government are of particular importance – the introduction of a number of

¹⁰ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

reforms, the formation of a new regulatory framework and effective management in all sectors of the economy in view of the restrictions imposed.

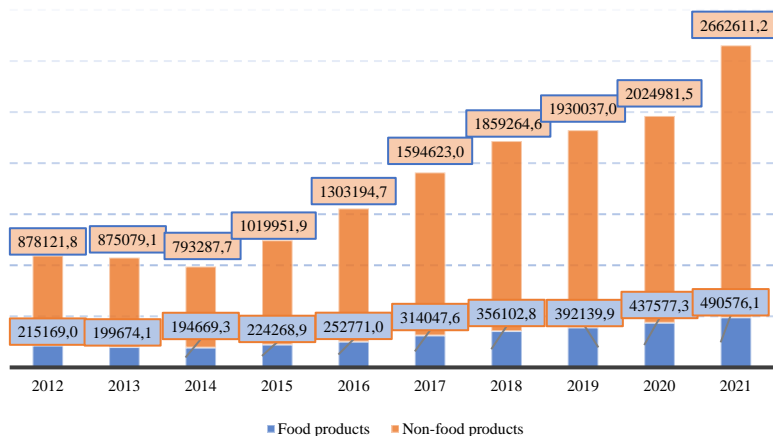


Figure 5. Dynamics of the structure of retail trade turnover in Ukraine by shares of product groups in 2012–2021, in million UAH

Source: compiled by the authors based on the source¹¹

The World Bank has presented a ranking of countries according to the Doing Business index. In 2012, Ukraine was ranked 152nd, but in 2020 it rose to 64th position (Figure 6).

With an increase in the overall ranking by 7 positions, Ukraine demonstrated growth in five areas¹²:

- investor protection – the protection of minority investors was strengthened by introducing a requirement for more detailed disclosure of transactions with stakeholders;

- obtaining construction permits – the process of obtaining construction permits was simplified by eliminating the requirement to hire an external observer and introducing an online notification system, as well as reducing

¹¹ State Statistics Service of Ukraine. Official website. Available at: <http://www.ukrstat.gov.ua/>

¹² Analytical review "Ukraine's place in the World Bank's "Doing Business" rating" (2023). Ministry of Economic Development, Trade and Agriculture of Ukraine. Official website. Available at: <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9cd60d26-fa44-481c-bb2a-1b28c713081f&title=AnalitichniiOgliadmistseUkrainiUReitinguSvitovogoBankudoingBusiness&isSpecial=true>

the cost of obtaining a construction permit by reducing the fee to the Kyiv City Rada;

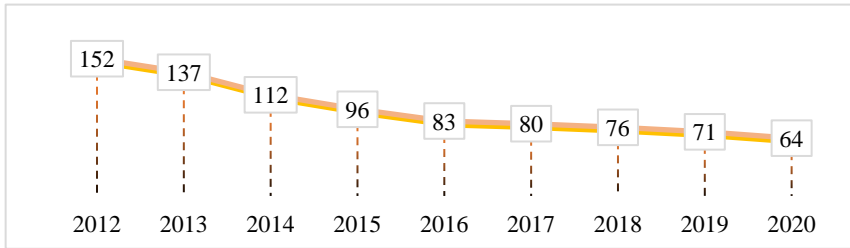


Figure 6. Dynamics of Ukraine's business climate index for 2012–2020

Source: compiled by the authors based on the source¹³

– connection to the power grid – the process of obtaining electricity was simplified by optimising the issuance of technical specifications and introducing a geographic information system, and the reliability of power supply was improved by introducing a compensation mechanism for outages;

– international trade – reduced import time due to simplified conformity certification requirements for auto parts;

– property registration – property registration was simplified by increasing the transparency of the land management system.

Given the active hostilities on the territory of Ukraine, we understand that the figures for 2022–2023 will be disappointing, but Ukraine's potential on the global stage is significant and has a significant impact on the support of partner countries.

In addition, special attention should be paid to the peculiarities of calculating the Global Competitiveness Index, so we should focus on Ukraine's position in the ranking according to this indicator. Every year, Ukraine continues to lose ground in the global rankings. Thus, according to the Global Competitiveness Index in 2022, Ukraine ranked 57th among 63 countries, losing 8 positions over the year (Figure 7).

The following countries retained their leading positions in the global competitiveness index: Switzerland, Singapore, the USA, the Netherlands, Germany, Sweden, the UK, Japan, Hong Kong and Finland.

A study by the Swiss Institute for Management Development (IMD), which determines the rankings among 63 countries: World Competitiveness

¹³ The World Bank (2023). Official website. Available at: <http://www.worldbank.org/uk/country/ukraine>

and World Digital Competitiveness, shows that the country's greatest achievement was 49th place in 2013, 2014 and 2021.

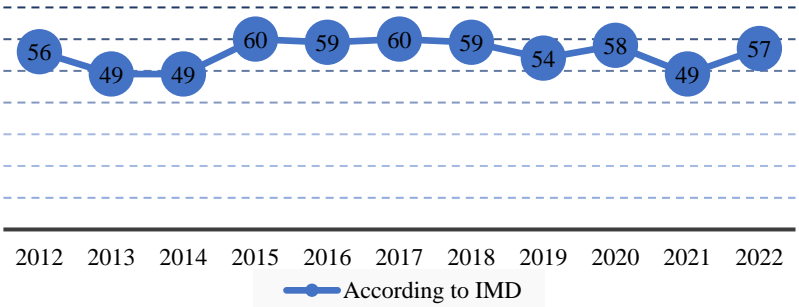


Figure 7. Ukraine's ranking positions in the Global Competitiveness Index for 2012–2022

Source: compiled by the authors based on the source¹⁴

Thus, in the course of the study, we found that the largest share in the structure of the total number of business entities in Ukraine is occupied by trade enterprises. Therefore, it is advisable to direct reforms to this sector in order to achieve the maximum effect reflected in the indicators of Ukraine's position in the world economy.

In this study, we analysed the dynamics of a number of indicators that characterise Ukraine's economic development and determined its ranking positions alongside other countries.

CONCLUSIONS

The study examined the main indicators characterising the development of trade in Ukraine and the state of the economy as a whole in 2012–2022. Among them, a special place is occupied by the number of business entities, trade turnover, the structure of retail trade, and the global competitiveness index. The analysis of the dynamics of these indicators revealed negative trends in changes due to the aggravation of economic crises, military operations in the country, the annexation of the Autonomous Republic of Crimea, destabilisation of social and political life, and the COVID-19 pandemic.

¹⁴ The Global Competitiveness Report 2019 (2019). *World Economic Forum*. Official website. Available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

It is determined that the main reason for the instability of the business environment, along with the military aggression of the Russian Federation, is the bankruptcy of domestic trade enterprises due to the low level of competitiveness and the inability to adapt to changing conditions of the external and internal environment and attract investment.

It is established that the structuring sector in Ukraine is the wholesale and retail trade. Therefore, it is recommended to direct the government's reform activities to this sector.

The article reveals a deterioration in the rankings of the index of business conditions, which is explained by the war in the country. However, given this situation, stabilisation of the business environment in the country requires immediate development of a new regulatory framework, selection of a new strategy for attracting investment, and effective use of levers of influence on the country's economy.

SUMMARY

This section analyses the current state of trade in Ukraine at the macro level. The study allowed to identify the main directions and trends in the development of the industry in 2012–2022. It is established that the trade sector is a structural component of the national economy. The statistical data confirming this are generalised and systematised. The article considers indicators of retail and wholesale trade in Ukraine, provides rating indicators that assess Ukraine's position in the international arena. The article pays special attention to identifying the problems that have arisen in connection with the military aggression of the Russian Federation on the territory of Ukraine. The importance of the effectiveness of the state policy in terms of trade regulation is established and recommendations on its main tasks are formulated.

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