

# MOVING UKRAINE ALONG GLOBAL VALUE NETWORKS: CASE OF AGRICULTURE

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## ABSTRACT

The relevance of the subject is explained by the place Ukraine takes in World and regional production of agricultural products. It was shown that Ukraine suffers from the fact that it produced and exports mostly raw materials and semifinished products which humpers perspectives of further development of whole sector of Ukrainian economy. Additional tension is evoked by the European legislation requirements and respective obligations taken by Ukrainian government regarding standards applied to agricultural products and general tendencies towards globalization of production. Therefore, it was stated that Ukraine should simultaneously meet two goals – one is to develop main principles on how to manage agriculture production as to protect national interests, another one is to define the role of Ukraine as an operator at the international market for the sake of international and global interests and challenges. The goal of the paper was to assess which place is given to agriculture and to global value chains by international agreements which are of most interest for Ukraine. As a result of the research it was suggested for Ukraine developing cooperation in the field of agricultural production in the framework of creation or developing of regional value chains via using potential of already ratified regional agreements with specific SCO member states, such as: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan to makes bridges with Balkans, Baltic countries, South Caucasus, South of Africa mimicking at some extent and complementing Belt and Road Initiative. It was recommended to promote the idea of extensive regionalization of GVN's in front of Ukrainian western counterparties owing to the fact that the investment presence from western European countries (Germany, Netherlands, France etc.) remain substantial.

**Keywords:** agriculture, global value networks, logistics, subregionals, megaregionals, complementarity, exports, economic partnership.

## INTRODUCTION

The relevance of the subject is explained by the place Ukraine takes in World and regional production of agricultural products. In the first half of 2021 its exports grew by 33,4% in comparison to the same period of 2020. Its main importers were China, Poland and Turkey, the volumes of Ukrainian exports to the latter increased by 58,6% (UkrInform, 2021). Among other things, Ukrainian commodity export structure was dominated by ferrous metals, grain crops and fat and oils. In 2021 it has already exported around 17 mln tons of grain placing 1<sup>st</sup> or 2<sup>d</sup> in the world rank of grain exporters. Its other exports goods are also of high demand from outside buyers and consumers, e.g. in 2021 the overall EU quota on Ukrainian honey was totally used already in the beginning of 2021, the same is true for apple and grape juice, tomato paste, sugar etc (SlovoiDilo, 2021).

In 2017, agricultural exports generated 28% of foreign currency inflows. Moreover, in 2009-2016 Ukrainian agriculture contributed 7% to overall economic growth, while its productivity remained rather low- at 60% of total productivity in services sector computed on the base of value added. Among positive trends is that Ukrainian government started publishing information on pests and plant diseases online, which help to raise agricultural productivity (World Bank, 2019a).

At the same time, Ukraine suffers from the fact that it produced and exports mostly raw materials and semifinished products which humpers perspectives of further development of whole sector of Ukrainian economy. Additional tension is evoked by the European legislation requirements and respective obligations taken by Ukrainian government regarding standards applied to agricultural products and general tendencies towards globalization of production. Not the last is global trends towards digitalization, need for sustainable development, including sustainable consumption and sustainable production, circularity of economy, evolution of fam problem. On the other side the fast expansion of global values chains and networks demand fast reply from the side of national producers. Nowadays, the Ukrainian agricultural market is dominated by



10 largest producers and respective market operators, including those providing different support in form of farm management solutions and drone-based and remote sensing solutions.

Therefore, Ukraine should simultaneously meet two goals – one is to develop main principles on how to manage agriculture production as to protect national interests, another one is to define the role of Ukraine as an operator at the international market for the sake of international and global interests and challenges.

The goal of the paper is to assess which place is given to agriculture and to global value chains by international agreements which are of most interest for Ukraine. The logic of the study is best described as follows: the first goes studying main provisions of megaregional agreement which are potentially beneficial for Ukraine in terms of global value networks (GVN), and the second goes making the same regarding subregional unions Ukraine is part of or interested in. The accomplishment of these tasks will give an understanding of how to manage the process of Ukraine entering global production given current landscape of international agreements.

## **RESULTS AND DISCUSSION**

Currently there are several big international agreements which cover not the only one region or continent, but several, among them are: Trans Pacific Partnership, Shanghai Cooperation Organization (SCO), Asia Pacific Economic Cooperation, Regional Comprehensive Economic Partnership, BRICS. Ukraine could be both beneficial in terms of broader international agreements which cover the wide range of issues, not only trade-related, but narrower ones- such as FTAs or regional economic partnerships.

Due to the geographical location of Ukraine, regarding the structure of its international trade, it is feasible to consider BRICS and SCO as potential unions to cooperate with. Regarding SCO the issues of cooperation in the field of agriculture are enshrined in a separate document: the Agreement on Cooperation in the Field of Agriculture between the governments of the member states of the Shanghai Cooperation Organization. This agreement foresees a number of standard provisions, such as: knowledge exchange, disease prevention, joint conferences (Mingwen, 2018). The SCO Development Strategy until 2025 also envisages that agriculture will become one of the priority areas of cooperation. In particular, the efforts of the participating countries will be focused on the implementation of joint high-tech projects for the production and processing of agricultural products and the introduction of innovative technologies, including those in the food industry. Additionally, the problem of destructive land use, lack of water resources must be solved (SCO, 2019). At the same time, real joint projects have not been implemented yet.

According to the program documents of the organization, in addition to simplifying the procedures for trade in goods, provides for the simplification of trade in services and the development of a number of provisions for e-commerce. This, in turn, will have a positive effect on trade within the union. In general, the Organization's Development Strategy provides for the creation of industrial clusters along transport arteries and the development of logistics centers, as well as the creation of inter-regional economic projects (SCO, 2015). Additional support for future initiatives is provided by the Memorandum of Understanding and Stimulation of Cooperation within the SCO in the Field of Micro, Small and Medium Enterprises between the Ministries of the SCO Member States.

Regarding the development of global value networks in the context of the SCO, it is worth noting the defining difference of this megaregional: many member countries do not have its own access to the sea. Therefore, the development of infrastructure projects will play a significant role in the development of entrepreneurship built upon international production cooperation.

Taking into account recent trends in the development of the role BRIC(S) plays at the global economic arena it could be concluded that the BRIC(S) are actively involved in global value networks, mainly in that part of them that is characterized by a low share of value added. The main obstacle to entering the further stages of value chains is the lack of technological progress [200]. Focusing on such areas of economic cooperation as energy, transport, telecommunications, social and labor relations, the BRICS has set up its own development bank to finance infrastructure projects in the member countries. From this point of view, the BRICS Development Bank could play a significant role in shaping global value chains, but the scope is currently geographically limited. Moreover, the cooperation in agricultural production is not the top-priority in this case. However, huge attention is paid to the development of innovative technologies, digitalization, transportation, e.g. building relevant infrastructure which will help to booster economic development in whole. The major obstacle for Ukraine taking advantages of this union functioning is that it is overly dominated by Russian Federation. Moreover, despite technological progress and the digital revolution, the geographical criterion and the criterion of the economic and political complementarity in the case of the BRICS do not lose their relevance either in case of simple international economic integration or of the megaregional integration.



The Goa Declaration states that the implementation of the BRICS Economic Partnership Strategy encourages measures to increase the participation in producing added value and mobility of participating companies in the creation of global supply chains, in particular by preserving room for maneuver for national policy aimed at promotion of industrial development.

As before this megaregional also has two economies-leaders: China and Russia which are currently conducting joint research and development in key areas of science and technology, including aerospace, nuclear energy, information and communication technologies, artificial intelligence, new energy sources, new materials, biotechnology, modern agriculture, and environmental protection. These projects help them to endure their international economic competitiveness and to save their positions as global economic leaders fixing the tri-polar global economy system.

As Ukraine is not the partner of either of these two megaregional partnerships, it is suggested to develop alternative roots for promoting Ukrainian strategic ideas at international and global landscape. We are considering major smaller integration unions the Ukraine is part of, as the platforms for further spreading country projects, e.g.: GUAM, OBSEC, Visegrad Four (Three), Eastern Partnership (EaP), and EU candidates and Southern Partnership (SP) as an addition priority area in the framework of EU initiatives.

Thus, we derive strategic priorities for Ukraine in the framework of these sub-regional formations regarding development of global value networks and agricultural production (Table 1). All strategic priorities were defined based upon program documents of above listed sub-regions.

**Table 1. Ukrainian strategic priority areas in subregional unions**

Strategic Priorities	
<b>GUAM</b>	Continuation of lobbying the development of transport corridors within the association in order to intensify the development of GVN Diversification of the structure of foreign trade with member countries
<b>OBSEC</b>	Establishing of vocational schools and colleges with the member countries of the association (Turkey) Development of e-commerce Development of the innovative Blue Economy Participation in strengthening cooperation at the SME level Creation of regional clusters and incubators incl. in the field of green production
<b>V4</b>	Development of cooperation in the field of agricultural production Development of cooperation in the field of security issues (e.g. Internet security, anti-fraud) Implementation of Go Highway Development of river communication Development of the digital economy (including as potentially interesting and important areas for the development of cooperation with China)
<b>EU candidates</b>	Cooperation in continuation of reforms and approximation of legislation foreseen by EU FTA Strengthening cooperation with the Balkans (in terms of prospects for Balkanization of European integration) and the Baltics Consideration of the possibility of concluding agreements on vocational schools and colleges with the Balkan countries
<b>EaP</b>	Diversification of the structure of foreign trade with member countries Security issues (especially taking into account the political situation in Belarus and Azerbaijan) Development of cooperation in the field of agricultural production, light industry, development of infrastructure projects, IT, cyber security
<b>SP</b>	Consideration of the possibility of establishing vocational schools and colleges with the countries participating in the sub-regional formation in order to develop cooperation on the axis Eastern Partnership-Ukraine-Southern Partnership as a complement to European integration and the formation of a new sub-mega-region

Source: developed by author

Developing cooperation in the field of agricultural production in the framework of creation or developing of regional value chains could be treated as the tool of either entering bigger megaregional agreement or counteracting negative tendencies or threats. For example, in case of SCO Ukraine can consider using potential of already ratified regional agreements with specific SCO member states, such as: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan to makes bridges with Balkans, Baltic countries, South Caucasus, North of Africa mimicking at some extent and complementing Belt and Road Initiative bearing in mind that today main economic destinations of Ukrainian exports inside GVN are Poland, Hungary, Germany and Poland summing up to 70% of total Ukrainian GVN exports.

The need for developing respective infrastructure to promote Ukrainian participation in GVN is explained by the fact that the price of grain transportation is significantly higher in Ukraine than e.g. in Europe due to insufficient use of river or rail transport, storage facilities and high port fees (Worldbank, 2019b). General monopolization of production structure also negatively affects doing business climate. The malpractices of state support of specific enterprises in the form of subsidization, more attractive bank lending, lowering energy fees also do not correspond to the proclaimed statements about dreamed economic liberalization. FDI also remain low testifying weak interest from the side of international producers in cooperating with Ukraine within GVN incl. However, the investment presence from western European countries (Germany, Netherlands, France etc.) remain substantial. Therefore, Ukraine could play that idea of extensive regionalization of GVN in front of its western counterparties.

## CONCLUSION

The increase of attractiveness of Ukraine as a counterparty in global value chains and networks is not possible without developing its ties and economic cooperation with smaller regional unions and agreements. Based upon the results of the research it was suggested to promote the creation of alternative roads and ways on how to transfer value added within the Western European region, South Caucasus and Northern Africa. The specific measures could be traced out in case the respective analysis of commodity and geographical structure of GVN exports movement is examined with respect to countries entering specified subregional unions and agreements. Further recommendations should go in line with general provisions and statements foreseen in National Economic Strategy of Ukraine for the period till 2030, meet the requirements and obligations related to international agreements currently in place, and correspond to Sustainable Development Goals.

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