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WORLD FINANCIAL CRISIS AND COMPETITIVENESS OF UKRAINE

The article focuses on the causes of spread of the world financial crisis on the economy of Ukraine, on the suggestions of overcoming it, as well as on enhancing competitiveness of the national economy in the context of the country's integration within the world economy.

Стаття посвячена виясненню причин розповсюдження мирового фінансового кризиса на економіку України и внесенню пропозицій, направлених на его преодоление, а также на повышение конкурентоспособности национальной экономики в контексте ее интеграции в мировое хозяйство.

Статтю присвячено виявленню причин розповсюдження світової фінансової кризи на економіку України та внесенню пропозицій, спрямованих на її подолання, а також на підвищення конкурентоспроможності національної економіки в контексті інтеграції України до світового господарства.

Key words: foreign trade balance, world price, hryvnia exchange rate, competitiveness of the national economy, international economic integration, price competition.

The objective of the article is to analyze the causes of spread of the world financial crisis on the economy of Ukraine, to come up with suggestions of overcoming it, as well as to emphasize the importance of enhancing competitiveness of the national economy in the context of the country's integration within the world economic environment.

The current research is based on the method of experts' evaluation, systematic approach, and statistical analysis.

It is certainly true that the crisis has been the matter of research in the economic studies for many years. The scientists give qualitative and quantitative evaluation of possible direct and indirect causes of crises emergence in specific cases, show links between currency crises and other types of economic crises, study the effect of internal and external economic and political factors (O.Chugaev), reveal informative function of a crisis and its constructive role in the social processes innovation and intensification (A.Galchynsky).

Since the first world crisis of 1857 there have occurred about twenty world crises [16, p. 5]. Like previous ones, the current crisis follows the classical sequence of expansion, euphoria, financial distress and panic [25, p. III]. However, the recent world financial crisis is unprecedented in depth and breadth, with virtually no economy left unscathed.

Among the specific elements which have influenced the financial crisis scientists underlie first of all a global imbalance, in particular the fact that the global supply exceeds global demand [23, p. 6].

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The crisis started in the USA, and is still hitting world's major economies [6, p. 14], as well as the economy of our country. In the course of the crisis, even economies that were expected to grow, such as those of China and India, are still slowing down significantly compared to previous years.

Moreover, the crisis spread quickly, infecting the entire United States financial system, as well as the financial markets of other developed and emerging-market economies, including Ukraine, currency markets and primary commodity markets. Thus, it is considered by many prominent Ukrainian economists to be the worst and the most wide-spread one [1, p. 119].

Since Ukraine is integrated into the world economy, it could not avoid the impact of the crisis. There is even some logic behind the relation between the level of integration of the national economy into the world economy and the degree of exposure to the risks of being under the influence of the crisis. So, in the era of globalization the task for each nation is to enhance the country's competitiveness by choosing the right integration path and minimizing the impact of the world crises on the national economy. This crisis hit Ukraine hard and fast due to Ukraine's reliance on capital inflows, especially foreign direct investments and trade flows, in particular the export of steel and chemicals, as well as government debt, foreign assets in banking system.

Thus, the nature and the scope of this problem, having become especially popular lately, is of high importance.

Different kinds of financial shocks have had varying impacts on diverse economies. In the first quarter of 2009 gross fixed capital formation and manufacturing output in most of the world's major economies fell at double digit rates. Meanwhile, problems with solvency in the non-financial sector in many countries fed back into the financial system.

Most scientific research suggests that it affected strongly companies, incomes, and employment in the financial sector itself, as well as the construction, capital goods and durable consumer goods industries where demand depends largely on credit.

It seems logical to touch upon seven practical lessons for regulators mentioned in UN Trade and Development Report 2009, some of which could be relevant to the current research [25, p. 105-106]. Firstly, the financial efficiency should be defined as the sector's ability to stimulate long-term economic growth, while transaction costs, the number of available instruments, or the overall size of the financial system are relevant if they contribute to increasing social welfare. Secondly, regulatory arbitrage can only be avoided if regulators are able to cover the whole financial system and ensure that all financial transactions are overseen on the basis of the risks they produce. Thirdly, it is necessary to complement micro-prudential regulation with macro-prudential policies aimed at smoothing the leverage cycle which is explained by the fact that regulation is necessary because markets sometimes do not work. The fourth lesson relates to the incentive structure within the financial industry. Compensation schemes within the financial industry promote excessive risk-taking and the incentives of credit rating agencies are misaligned and lead to rating inflation which can be attenuated by designing remuneration structures that do not focus on annual returns but on returns over a long term. The fifth lesson specifically relates to developing countries, which can increase their resilience to external shocks by maintaining a competitive exchange rate, limiting currency and maturity mismatches in both private and public balance sheets and having contingency plans to be implemented when all else fails. According to the sixth lesson, larger financial systems have a greater need for financial regulation. The seventh lesson relates to the need for international coordination. Regulators based in different countries should share information, aim at setting similar standards, and avoid a race to the bottom in financial regulation. However, it would be a mistake to impose a common regulatory standard. There is no single regulatory system that is right for all countries. Countries

with different levels of development, regulatory capacity and history need to adopt different regulatory approaches.

It is sufficient to state that competitive strength of the national economy experienced drastic challenges since Ukrainian goods and services failed to compete successfully in world markets. Indeed, competitiveness of the national economy is viewed as the ability of a nation's producers to compete successfully in world markets and with imports in their own domestic markets; competitive markets are the best way yet found for efficiently organizing the production and distribution of goods and services. The world financial crisis resulted in fewer opportunities for selling Ukrainian goods and services in world markets, in general fall in prices, and in overall drop of the country's well-being. Consequently, the current crisis has had a negative impact on the competitiveness of Ukraine.

For our purposes, let us mention that export value has been declining in Ukraine, the Russian Federation and Kazakhstan due to lower prices and, in general, also smaller volumes. As international investors and lenders turned away in the search for reduced risk exposure, capital outflows and currency depreciations revealed the vulnerability of the banking sector. Tightening credit and deteriorating employment conditions caused a fall in domestic investment and consumption just when foreign demand also receded. In the first few months of 2009, year-on-year industrial output dropped in the Russian Federation and Ukraine by about 20 and 30 per cent respectively. The Governments of the Russian Federation and Kazakhstan launched sizeable stimulus plans, using financial reserves accumulated from the high oil revenues of the past few years [25, p. 5].

The main channels through which the crisis influenced the national economy were foreign trade and financial outflows. Firstly, there occurred a sharp fall in private capital inflows. Secondly, FDI inflows declined which reflected a generally lower propensity to invest in real productive capacity, owing to shrinking final demand, tightening credit conditions and falling corporate profits.

However, before the crisis, Ukraine had seen enormous gross and net inflows of capital, largely attracted by interest rate differentials. Such inflows led to loss of international competitiveness of our domestic producers. This resulted in extreme financial fragility, with mounting domestic and external indebtedness, and currency mismatches between debt and income. When the external shock from the subprime crisis hit the global economy the flight from risk stopped short-term private capital inflows and forced currency devaluation with huge current-account deficits and debt commitments.

Concurrently with the reduction of foreign currency inflow (mostly in U.S.dollars since more than 70% of current accounts of the balance of payment in foreign currency are settled in USD) there occurred the outflow of the foreign capital [19, p. 59] which resulted into the sharp decline in the exchange rate of Ukraine's monetary unit and ultimately increased the price competitiveness of Ukrainian export.

In our view, among the crisis causes resulting in the profound effect on Ukraine's economy were the following.

Firstly, one of the main reasons of spread of the world financial crisis on the economy of Ukraine is a considerable negative foreign trade balance of goods and services. It has been negative since 2006 which is shown on table 1.

Table 1. Dynamics of foreign trade balance of Ukraine, in USD billions

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009
Balance	2,88	3,84	2,84	6,92	1,29	-2,88	-7,26	-13,31	-1,38

Source: Зовнішня торгівля України товарами і послугами. Т.1: стат. зб. / Держкомстат України, 2009. – С. 17; Стан зовнішньоторговельного балансу України за 2009 рік. Експрес-випуск / Держкомстат України. 15.03.2010. № 521.

Secondly, a considerable gross external debt (as of October 1, 2009 it was equal to USD104,4 billion) [19, p. 79].

Thirdly, a high level of dollarization of the national economy.

Fourthly, the predominance of goods with insignificant amount of added value in export (mostly metallurgy products, demand for which decreased because of shrinkage in building, construction, engineering, and fall in the production of machinery in the developed countries).

As a result, the world prices for metallurgy products dropped. Thus, from June to December of 2008 the world price for carbon steel fell from USD1160 to USD 676 per ton, while on the EU market it was nearly 2 times down (from USD1344 to USD619), and in Asia – 1.5 times down (from USD913 to USD619) [6, p. 17, 32].

Consequently, Ukrainian metal products due to its high cost price failed to meet price competition and lost significant part of its foreign market.

Thus, out of the three strategies suggested by M.Porter in his classical *Competitive Strategy: Techniques for Analysing Industries and Competitors*, namely generic strategies of cost leadership, product differentiation, and focus or strategic scope, the price competition strategy (sometimes also called cost leadership strategy), which is the most widely used in Ukraine, seems to be the least effective one for improving the competitiveness of the national economy.

Cost leadership strategy, adopted by Ukraine, involves winning the market share by appealing to cost-conscious or price-sensitive customers which is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio. However, this strategy doesn't stimulate entrepreneurial activity, scientific and technological innovation.

In other words, to succeed at offering the lowest price while still achieving profitability and return on investment, our economy operates taking advantage of cheap labor cost, paying low wages to high skilled employees, paying low price for raw materials, enjoying low quota of depreciation in production costs in comparison to those of the rivals. While maintaining this strategy, Ukraine is in constant search for cost reductions in all aspects of the business, which includes controlling production costs, increasing asset capacity utilization, as well as minimizing the other costs including distribution, research and development. Use of this strategy means that Ukraine will fall far behind its competitors in the long run since technological setup plays the key role in enhancing the competitiveness. Ukraine's economy should choose a differentiation strategy which is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. Differentiation primarily impacts performance through reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition. A successful product differentiation strategy will move goods from competing based primarily on price to competing on non-price factors, such as product characteristics, distribution strategy, promotional variables.

Before turning to the central claims that will be made, it is necessary to add that the low level of technological processing, deficiency and/or inadequacy of modern technologies and relatively standard technological processes result in the final products being the same quality as those of the competitors. With these points in mind, it is necessary to mention that along the technological factors (designing, planning, advertising, production, selling, delivery, services, etc.) there are such significant factors as the world prices, tariff and nontariff instruments, the mechanism of the formation of the exchange rate, etc. that also contribute to shaping the final cost.

For Ukraine, metallurgy is the main export article. Unfortunately, metallurgy market development forecast is not very promising. It is important to note that the similar products of

competitors are considered to be of better quality, and are of higher competitiveness despite the price advantages of Ukrainian metal products [15, p. 30]. Meanwhile, the export of goods in 2009 is equal to 59,3% of 2008, and the import is 53,1% in comparison to the previous year [7]. The figures show the effect of the world financial crisis on the national economy.

At present, the global market for high technology goods is clearly dominated by developed countries, and Ukraine should account for an increasing share of this market by using possibilities to exploit natural comparative advantages and taking opportunities to build new dynamic comparative advantages. According to V. Novitsky, potential for expanding the volume and structural optimization of the mechanism of international economic activity could be better implemented at the technological, industrial, export policy, assuming full development of the sectors, whose level of development provides competitive advantages of Ukraine. These areas primarily are rocket-space industry, aircraft construction, shipbuilding, separate lines of machine building, production of energy equipment, nonferrous metallurgy, chemical industry, introduction of advanced biotechnology, new technologies in areas of electric, telecommunication, radio electronics, cryogenics, nuclear physics.

Furthermore, there is considerable scope for our country in the years and decades ahead to gain from the opportunities that will emerge from the structural change towards renewable sources of energy, climate-friendly technologies, low-carbon equipment and appliances and more sustainable modes of consumption.

The best and soonest way out of crisis for Ukraine is to improve quality competitive advantages, to increase the percentage of products with considerable amount of added value in its export, price, and demand for which have the tendency to grow. Fall in hryvnia exchange rate as the instrument for increasing the competitiveness of Ukrainian products worsens the terms of trade and affects national income [18, p. 63].

That is why the vector of integration of Ukraine should be directed towards the countries and regional blocks in cooperation with which our national economy could obtain new competitive advantages that would enable the country to meet technological requirements and to export advanced technology products.

Ukraine takes part in the development of regional integration processes with the countries of the European Union (EU), the Common Economic Space (CES), the Black Sea Economic Cooperation (BSEC) and the Organization for Democracy and Economic Development – GUAM (GUAM).

Let us analyze how Ukraine's external economic relations with the countries belonging to those international integration organizations influence the competitiveness of the national economy.

The EU countries are the consumers of a considerable part of Ukrainian export of goods, and their products constitute an essential part of Ukrainian import (tabl 2)

Table 2. Unit weight of export and import of goods of Ukraine to/from the EU countries of all its export and import of goods, %

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Export	33,9	35,5	37,7	33,7	29,9	31,5	28,2	27	23,9
Import	30,1	32,4	34,2	32,9	33,7	36	36,7	33,8	33,9

Source: calculations of the author are based on 1) Географічна структура експорту-імпорту товарів. Держкомстат України, 1998–2009. Дата останньої модифікації: 2/06/2009. [Електронний ресурс]. – Режим доступу http://www.ukrstat.gov.ua/operativ/operativ2005/zd_rik/zd_u/gsp_u.html; and 2) Стан зовнішньоторговельного балансу України за 2009 рік. Експрес-випуск / Держкомстат України. 15.03.2010. № 52.

As it is shown on the table, the unit weight of export of goods of Ukraine to the EU countries in all Ukrainian export had been increasing till 2004, while it fell in the year 2004, and in particular it dropped in 2005, and then in 2006 the unit weight of export of goods of Ukraine to the EU countries rose again, but not to the level of 2003, in 2007 and 2008 it fell again.

Unit weight of import of goods of Ukraine from the EU countries in all Ukrainian import actually had been increasing, except 2004, and only in 2008 it dropped.

Thus, external economic relations with the European Union are gradually improving due to import which plays the key role in stimulating the development of integration processes. At the same time this share in comparison with the overall import of Ukraine remains negligible: in 2005 it was equal to only 1,2% in all the EU import and 0,6% in all export [17]. So, it is evident that there is a necessity for working on this disbalance, for enhancing the competitiveness of Ukrainian goods and services on the EU market, for improving the structure of trade and for using the markets of new EU member-states in order to push Ukrainian products onto them.

Export of Ukraine to the EU countries consists mainly of ferrous metals, ore, energy materials, oil and oil refining products, scorias and ashes, textile goods, wood and wooden products, ferrous metals products – raw materials and capital-intensive products of heavy industry with insignificant part of added value. The prices for goods that dominate in the export structure of Ukraine to the EU countries can be characterized as unstable. While selling those goods, especially ferrous metals products and metal-working products, the level of competition has the tendency to increase due to the existence of EU firms on these markets which are becoming strong rivals to our enterprises.

The competition is going to be even tougher since the new countries where advanced technology manufactures, enterprises, firms produce the same goods are going to enter the market in the near future. Nowadays competitive advantages of Ukraine on those markets are provided by the low domestic prices for the factors of production – low level of wages, which contributes to the low level of price for iron ore, coal, electric power, considerably lower price for gas in comparison with the world price, not sufficient level of expenses for updating and modernization of capital assets, state subsidies. Increased The price for the gas imported from the Russian Federation has been raised after Ukraine's joining the WTO. Necessity for wage rise results in losing some of the competitive advantages. It is also important to note that one of the competitive advantages was the low exchange rate of the national currency, which was considered by many scientists to be understated [2, p. 201; 13, p. 81]. Exchange rate appreciation of the national currency could lead to the loss of this competitive advantage. Exchange rate depreciation resulting from the world financial crisis improved this competitive advantage, but its temporary character would hopefully mean the stabilization of the exchange rate and consequently strengthening of the national economy. It is easy to arrive at the conclusion that the commodity structure of Ukraine's export to the EU countries requires trenchant step in the direction of increasing the volume of products with a considerable amount of added value.

The EU enterprises can not be considered as active consumers of Ukrainian innovative products. Electrical machines and equipment may serve as an exception since the unit weight in all export to the EU is increasing lately. In 2009 the unit weight was 10,8% [20]. In 2007–2008 there occurred considerable growth in export of aeronautical or space apparatuses. It proves that there are positive changes in export of Ukraine to the EU countries which forms new competitive advantages.

In import of Ukraine to the EU countries ground transport vehicles, barrels, machinery and equipment, electrical machines, polymer materials and plastic dominate. In 2007–2008 there occurred a sharp increase in the import from the EU countries of aeronautical or space apparatuses. So, most products that are imported from those countries have considerable amount of

added value which contributes to the higher technological level of production in Ukraine and leads to obtaining new competitive advantages by the national economy.

Trade in services plays important role in modern development of the world market since in the developed economies unit weight of export and import of services in trade exceeds that of goods.

The significant part of services that Ukraine gives to the EU countries, constitute transportation services, which is explained by the movement of goods from the East to the West. It is important to keep those competitive advantages of Ukraine, as well as to provide the same services for goods transported from the West to the East and the South thus acquiring new competitive advantages. In order to increase the unit weight of financial, computer services and the other intellectual services in the export to the EU countries it is essential to form new competitive advantages by introducing modern information, communication, and financial technologies, as well as to provide the conditions for their active entry into the European technological, communication, and financial spaces.

The EU countries as of January 1, 2010 placed in Ukraine 31,4 billions USD in FDI, which is 78,3% of all FDI placed in the national economy [20]. This way the EU countries contribute to obtaining of new competitive advantages by Ukraine. At the same time it should be mentioned that the use of FDI requires improvement by investing more funds in machine-building, and in particular in innovation activity of Ukrainian enterprises.

Thus, the development of external economic relations between Ukraine and the EU countries is contributing to obtaining of new competitive advantages by our economy, but the realization of those advantages is taking place mostly not on the EU countries markets but on the markets of other countries, e.g. the CES countries.

The CES countries are the consumers of a considerable part of Ukrainian export of goods, and their products constitute an essential part of Ukrainian import (tabl 3).

Table 3. Unit weight of export and import of goods of Ukraine to/from the CES countries of all its export and import of goods, %

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Export	24,8	20,3	21,5	21,6	26,4	27,9	31,8	26,6	28,1
Import	43,7	41	41,2	45,1	38,7	35,5	32,9	29,6	37,3

Source: calculations of the author are based on 1) Зовнішня торгівля України за 2001 рік, т. 1: стат. зб. / Держкомстат України. К., 2002. – 146 с.; 2) Зовнішня торгівля України за 2002–2007 роки: стат. зб. / Держкомстат України. – К., 2008. – 108 с.; 3) Зовнішня торгівля України товарами за 2009 рік. Експрес-випуск / Держкомстат України. 15.02.2010. – № 27.; 4) Зовнішня торгівля України товарами та послугами у 2008 році, т. 1: стат. зб. / Держкомстат України. – К., 2009. – 168 с.

The development of external relations with the CES countries, in particular with the Russian Federation, provides Ukraine with energy carriers. Russia buys the products of Ukraine's manufacturing industry, and what is the most important in view of transition of the national economy to the innovative model of development, the machine-building products. Ukraine's export to those three countries is formed by ferrous metals and products made from them. The strong and positive point is that there is a stable demand on the markets of those countries for the products of machine-building industry.

In general, the CES countries are the main consumers of Ukraine's machine-building industry. In 2008 the countries imported 67,7% of Ukraine's export of barrels, machines, apparatuses, and mechanical devices; 44,6 – electrical machines and equipment; 89,2 – railway or tram

locomotives, road equipment; 78,6 – ground transportation vehicles, except railway, 36,1% – aeronautical or space apparatuses.

Thus, in external relations between Ukraine and the CES countries the competitive advantages obtained during the previous years may be realized, due to similarity in production, technical, and technological bases, stability of the existing connections, as well as the opportunity of renewing the lost production and technical connections, nearly the same qualification and education level of the workforce, the low level of wages, the developed transport infrastructure. In export to the CES countries, Ukraine could also realize the competitive advantages which are provided by the import of modern technologies and equipment from the EU countries.

At the same time, it should be noted that there are opportunities for obtaining new competitive advantages in cooperation with the CES countries, first of all, with the Russian Federation, in high technology industries, e.g. aerospace industry. There exists a need to streamline the task of creating the true conditions for realization of macrotechnology "Ukraine – a high technological, aerospace state" before 2010-2015, which could be implemented in cooperation with the Russian Federation. In support of this statement let us analyze table 4.

Table 4. Export and import of aeronautical or space apparatuses of Ukraine to/from Russia, in USD millions

	2001	2002	2003	2004	2005	2006	2007	2008
Export	29,7	22,6	48	21	11,3	83,8	37,3	79,3
Import	26,9	13,5	10,6	22,5	9,4	22,6	12-июл	14,9

Source: calculations of the author are based on 1) Зовнішня торгівля України за 2002 рік, т. 2: стат. зб. / Держкомстат України. К., 2003 . – 270 с.; 2) Зовнішня торгівля України за 2003 рік, т. 2: стат. зб. / Держкомстат України. – К., 2004 . – 265 с.; 3) Зовнішня торгівля України товарами за 2004 рік, т. 2: стат. зб. / Держкомстат України. – К., 2005 . – 178 с.; 4) Зовнішня торгівля України товарами та послугами у 2005 році, т. 2: стат. зб. / Держкомстат України. – К., 2006. – 320 с.; 5) Зовнішня торгівля України товарами та послугами у 2006 році, т. 2: стат. зб. / Держкомстат України. – К., 2007. – 236 с.; 6) Зовнішня торгівля України товарами та послугами у 2007 році, т. 2: стат. зб. / Держкомстат України. – К., 2008. – 175 с.; 7) Зовнішня торгівля України товарами та послугами у 2008 році, т. 2: стат. зб. / Держкомстат України. – К., 2009. – 212с.

In order to take the existing competitive advantages of Ukraine in the CES counties special attention should be paid to the services, especially freight services since they are related to the implementation of the macrotechnology "Ukraine is a transit state". Geographical location of our country as the main factor providing the advantages in freight services is becoming of higher priority if Ukraine becomes one of the key economies with the same transportation services advantage belonging to the same integration block. Under these conditions the competitive advantages of these economies might result in monopoly in transportation services in a certain geopolitical vector which finally will bring a significant transportation rent. In other words, our country will gain if its cooperation with the CES countries is directed to providing the intensified integration processes between Western Europe, the Asian-Pacific Region and the South-East Asia.

In our opinion, in the light of this discussion the participation of Ukraine in the CES is advisable since the free trade zone within the CES, and free trade zone between Ukraine and the EU, as well as between Russia and the EU could result in the formation of geopolitical triangle Russia – the EU – Ukraine with the conditions of free trade zone. The intensification of FDI inflows will finally facilitate Ukraine's joining the EU. This idea is expressed by leading economists [14].

Evaluating positively the development of external relations between Ukraine and the CES countries from the point of view of enhancing the competitiveness of the national economy by

taking the competitive advantages created for decades years ago, it is important to take into account that the integration of Ukraine within the CES should be limited by the free trade zone since it would not contradict with the interests of the country and will contribute to achieving the strategic goal of Ukraine – eventual EU membership.

Clearly, main competitive advantages of Ukraine in BSEC and GUAM are formed on the markets of freight services in the geopolitical directions: 1) Western Europe – the Near and the Middle East, and 2) Western Europe – Caucasias – the Central Asia.

Taking into account the above mentioned, let us arrive at the general conclusions about the impact of Ukraine's integration with the EU, CES, BSEC and GUAM on the competitiveness.

External economic relations with the EU contribute to raising the technological and technical levels of production, the factor conditions (the first determinant out of four main determinants of M.Porter's diamond which is used for determining the country's competitiveness). At the same time they facilitate the rise in demand in the domestic market (the second determinant of the country's competitiveness). Due to the financial services, as well as various business, professional and technical services (including legal, accounting, advertising services, studying of the market, public surveys, research and development services, services in architecture, engineering, services in the area of agriculture, mining operations, processing services) the management level is also improving (the third determinant of the national competitiveness).

These are just a few steps to take today to stabilize the economy.

The CES vector enables Ukraine to sell the goods with a considerable amount of added value, as well as to provide transportation services by delivering energy carriers to the EU countries. Some opportunities arise for the development of the high technology industries.

In general, it seems logical to form the strategy of Ukraine's integration into the above mentioned regional integration blocks. The EU countries is the source for obtaining new competitive advantages since they provide Ukraine with modern technical equipment and technology. In order to stimulate the import of modern technical equipment and technology it is advisable to reduce the VAT, and in some case to give it a zero rate. It is reasonable to conduct negotiations with the WTO representatives on obtaining the rights for using special protection and compensation measures in agriculture and food industries, as well as using the indicative prices in order to avoid economically ungrounded low prices for Ukrainian goods and services.

These moves could also improve foreign trade balance since Ukraine's technological level of production will improve due to its cooperation with the EU and the export of goods with insignificant amount of added value will diminish. Ukraine should ensure accelerated development of the industries of the 5th and 6th Techno-Economic Paradigms.

Those steps are necessary since Ukraine's total foreign debt (state and corporate) had reached 93.5% of the 912.563 billion hryvnia GDP in March 2010. On March 18, 2010 the National Bank of Ukraine stated the total external debt in Ukraine increased 2.3% to USD 103.973billion in 2009, and it considered a 4% GDP growth realistic for 2010 the same day.

With regard to the high level of dollarization, it is recommended to reconsider the dominance of the dollar as the main means of international payments for our country and to view the alternatives, one of which could be the Russian rouble since there is a much better chance of achieving a stable pattern of exchange rate in a multilaterally agreed framework for exchange-rate management which should be the basis for further policies and reforms aimed at stabilizing the financial system.

World losses brought by the financial crisis are 5 trillions of dollars. This is 160 budgets of Ukraine. Some economists consider the crisis to be connected to the dollar which became world reserve currency and did not manage with the new function. So, some authors believe that unsatisfactory functioning built on a dollar as a reserve currency of a world monetary-currency

mechanism, has a direct relation to the world crisis. Converting of currency of one country into international, gave the USA enormous benefits and advantages in the realization of a credit expansion, created significant possibilities for its businessmen. It is extremely essential to ensure that the process of making and cancelling credits has a commercial background.

While the deterioration of global economic prospects in 2008 caused a fall in commodity demand, the downturn in commodity prices was first triggered by a reorientation of speculative influences in these markets. Despite the downward correction in the second half of 2008, prices for all commodity groups, except oil, remained above their average of the past 10 years. A large number of commodity prices seemed to have bottomed out by December 2008, but at this point prices of most commodity groups had only retreated back to about the levels of 2007. Only oil and minerals and metals had fallen roughly to the levels of 2005. The prices of oil, minerals and metals, and agricultural raw materials were worse hit than others by the slowdown in demand resulting from the slump in industrial production in developed countries [25, p. 7]. The problem is that the crisis led to a loss of competitiveness of domestic producers in international markets. So, for Ukraine to come out of this crisis better than it came into it, there should occur re-orientation in the export articles from metallurgy as the main article of export gain to other key industries, such as food industry, engineering, agrarian sector, aerospace industry, nuclear power engineering, etc. since the progress in development of these sectors will determine the directions of intensification of Ukraine's integration into the world economy [25, p. 7].

The national economy felt the impact of the crisis through the general loss of confidence of the financial market in its ability to cope with their specific exposure to the crisis. Special attention should be paid to the problem of determination of the national currency exchange rate. In fall 2008 the National bank of Ukraine «allowed the national currency to float» introducing the new official exchange rate procedure resulting from interbank bidding.

The leading Ukrainian economists have already emphasized the necessity for strengthening the regulation mechanism of the National bank of Ukraine and for using a variety of tools to control the exchange rate not only by interventions. In the course of this crisis, financial distress spread directly across stock and bond markets and primary commodity market, and put pressure on the exchange rate.

Finally, the financial crisis contributes to renewed thinking about the need for regulation. Many scientists nowadays are on the side of those who warned of the dangers of excessive deregulation and actively called for more, rather than less regulation. During his research in the area of financial economics, Hans-Werner Sinn observed that, if people's ability to pay is limited and there is a lower bound to what people can be made to suffer if they fail to pay their debts, then people may have a natural preference to accept certain gambles on the presumption that, if the gamble succeeds, they win, and if the gamble fails, their creditors lose. This observation is fundamental to the modern theories of credit rationing and of banking regulation [24, p. 2].

One of the reasons of Ukraine's economy being easily hit by the crisis can be partly explained by the fact that the significant share of Ukrainian banking system belongs to foreign banks, and that corporations and private banks increase the import and the loans.

Summary. The research shows that in the era of globalization the necessity of establishing world regulatory agencies working together with the national governments and regional agencies to resist and to prevent the threats of crises becomes of high priority.

The analysis suggests that the following steps need to be taken:

- 1) to review the foreign trade policy – there should occur the transition from price competition to quality competition;
- 2) to strengthen the state control in monetary policy over currency exchange regulation and control over external debt including its part formed by corporate sector and private banks;

3) to intensify the coordination between interstate and world agencies aimed at regulation of global economic processes and facilitation of their effective functioning.

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