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IMPORT REGULATIONS UNDER CONDITIONS OF ECONOMIC CRISIS

Abstract

The analysis of imports volume and its commodity structure in the major industrial markets of Ukraine in comparison with domestic production revealed that the import supply is not the factor of the domestic producers decline. The recommendations for imports regulation strengthening and macroeconomic policy improvement are substantiated.

Key words:

Import, import commodity structure, custom-rate policy.

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According to the world economic experts, states try to protect their national markets through tariff and non-tariff methods of regulation under conditions of economic crisis. Such a policy is related to enterprises activity in foreign markets and is caused by difficulties in sales of products in national markets due to crisis decline of domestic demand. To strengthen the protection of the state economy the measures for imports restriction and exports stimulation are used, even those that contradict the WTO rules and regulations (primarily increase in import duties).

In Ukraine during 2000–2007 merchandise imports increased 4.3 times in value and 2 times in volume, outpacing growth of GDP, industry and exports. Backwards, in the crisis years (2008–2009), it declined due to narrowing of domestic demand and a deep devaluation of hryvnia. But in 2010 imports growth again exceeded the dynamics of production and exports. At the same time from 2001 the negative trade balance grew till 2008 when it exceeded 18 billion U.S. dollars, which is almost a quarter of foreign exchange earnings. The next year due to a sharp imports decline and exports the most, a negative trade balance decreased almost three times, and in 2010 again increased 1.6 times.

Such processes lead to questions concerning the level of the imports impact on the national economy development, imports limitations expediency and its methods of control and optimization.

Despite the relatively high level of Ukrainian economy openness, which most economists point as a negative factor, the small size of the economy cause a limited participation of Ukraine in the world trade. In particular, as an importer Ukraine composes 0.3% of world imports. But according to the main indicator – the ratio of imports to GDP, which shows the dependence of reproductive processes and national commodity markets on external revenue, Ukraine significantly exceed that rate in comparison with countries that have a much higher level of the external revenue (Table 1).

In 2009 Ukrainian imports composed 48% of GDP. That indicator is 2 times higher than in Italy, 2.5 times higher than in Russian Federation, 4 times – than in Brazil and 1.2 times – than in Poland.

According to the theory of international trade, any country imports goods which production costs are higher compared to other countries, or goods whose production require to expend significant amounts of scarce factors of production, primarily labor and capital. The world imports commodity structure can be divided in three groups of products that usually describe the development of the importing country and opportunities of imports influence on the production. The first group includes goods that are not produced in this country. The second group includes goods intended to satisfy domestic demand that is not covered by domestic production in volume, variety and quality. The third group includes parts and components and their import is related to state participation in the international production cooperation. It should be noted that if imports include all of those three groups then the economy is well-developed, especially due to its involvement in international economic networks.

Table 1.

Imports indicators of specified countries in 2009

Countries	GDP per capita (dollars)	Imports (billions of dollars)	Imports to GDP ratio (%)	Imports per capita (dollars)	Exports covering imports ratio (%)	Average growth rate of imports in value for 2001–2009 (%)
Brazil	8 114	178.40	11.34	920.85	0.99	13
Italy	35 289	514.81	24.4	8 598.68	0.98	6
Canada	39 795	406.55	30.4	12 109.02	0.94	8
Poland	11 311	169.63	39.4	4 455.2	1.00	16
Russian Federation	8 736	250.80	20.4	1 780.24	1.36	19
Ukraine	2 569	56.40	48.0	1 234.06	0.96	17

Source: UNdata.

Imports of the first group of goods into the country do not adversely influence on the economy because they do not create competition with domestic producers, but they contribute to the expansion of markets and the increase of range of goods. The Ukrainian imports of this group include coffee, tea, spices, cocoa, edible fruits, nuts, citrus, partly vegetables, roots that make almost 3% in imports value, as well as certain types of chemical and metallurgical products, medicines, perfumes and cosmetics. For most countries that are not involved in international production networks (including Ukraine), the goods of the second group prevail in their imports, which can be considered as analogues for domestic producers. This very group of products increases the supply and in many cases enhances competition in the domestic market.

The growth of Ukrainian imports has recently outpaced the increase of production and exports (Table 2).

Table 2.

Production and foreign trade rates of increase in comparison prices, % to the previous year

Indicators	2000–2009	2000–2007 (before crisis)	2008–2009 (during crisis)	Ratio of imports lead		
				2000–2009	2000–2007	2008–2009
GDP	45.7	67.8	–13.2	0.997	1.210	0.823
Industry	38.9	87.5	–26.0	1.046	1.083	0.966
Agriculture	31.0	14.0	15.0	1.109	1.782	0.621
Exports	5.0	27.3	–17.6	1.383	1.596	0.867
Imports	45.3	103.2	–28.5	–	–	–

Source: Calculated using National Accounts of Ukraine data

In 2000–2009 imports grew in proportion to the GDP and surpassed the industry, agriculture and exports rate of increase, and in pre-crisis years it doubled and significantly outpaced those indices that show the huge impact of imports on the economy. However, during the crisis (2008–2009) imports fall was significantly deeper than of the other indicators.

As for domestic production, which goods should compete with imports, pointing at relatively low rate of ratio of imports lead (1.046% increase in imports leads to 1% increase in industry), a conclusion can be made concerning the low pressure of imports on domestic industry. That pressure was a bit higher in 2000–2007 when the ratio of imports lead reached 1.083% by 1% of increase in industry. However, not all the companies felt that because most of them competed with domestic market players those years.

In view of a constant price rise first of all in basic food commodities and in construction you may claim that the competition in trade and construction is very low and it takes place only with the domestic partners.

The illustration of imports contribution to the economy is described in the structure of imports in Ukraine (Table 3). It includes the imports of raw materials for intermediate consumption in economic sectors that accounted for 61–63%, the investment products accounted for 17–21% the consumer packaged goods – 17–21%.

Table 3.

Structure of imported goods in the economy of Ukraine

	Intermediate consumption		Final consumption		Gross storage		Total imports, mln. hrn.
	mln. hrn	%	mln. hrn	%	mln. hrn	%	
2005	139386	62.3	44705	20	39464	17.7	223555
2007	223217	61.3	63153	17.3	78003	21.4	364373
2008	325990	62.6	94578	18.2	100020	19.2	520588
2009	271425	61.9	92365	21	75043	17.1	438860

Source: National Accounts of Ukraine. Tables «Costs-Issue» in main prices for corresponding years.

The stability of imports structure especially in the intermediate consumption shares, that each year accounts for almost 62%, is notable. We suppose that this trend is connected with the established preserved industry structure and lack of implementation of advanced technologies that hinders the possibility of significant changes in technology and resource use of manufacturing processes.

The imports prevailing focus on the needs of the real sector is also confirmed by the data on commodities structure of domestic imports (Table 4).

As we can see from Table 4, in pre-crises years mainly raw materials such as mineral products prevailed in imports structure, although their share tended to fall (in 2005 to 32 %, in 2007 to 28.4 %). Instead investment goods, machinery engineering and metallurgy imports share rose. In 2009 those positions of imports decreased the most due to the fall of production and of the demand in industry consumers of these products.

During the last decade three positions, such as mineral products, machinery, equipment, vehicles and chemical products, formed almost 3/4 of total imports. Mineral products accounted for more than a third of imports, machinery, equipment, vehicles (including cars and household appliances) – slightly more than 1/5, metals and their products accounted for 5–6%. The final products, food, clothing and footwear held in the commodity imports structure only 7–8%.

Analysis of the reproductive processes in the economy of Ukraine through information data and methodological tools of national production allows us to conclude that they are mostly based on imports (Table 5).

Table 4.

Ratio of commodity structure of domestic imports to total, %

Commodity groups	2000	2005	2007	2008	2009
Mainly raw materials	59.2	52.8	49.2	50.1	62.1
Agricultural commodities	2.3	3.4	3.3	4.4	6.4
Mineral products	43.0	32.0	28.4	29.7	34.5
Chemical products	11.0	14.0	14.4	13.3	17.6
Wood and products of wood (except furniture)	2.9	3.4	3.1	2.7	3.6
Mainly investment goods	22.2	34.8	41.0	39.8	26.4
Ferrous and nonferrous metals and products	4.6	7.4	8.2	8.7	6.3
Machinery, equipment, vehicles, gears	17.6	27.4	32.8	31.1	20.1
Mainly consumer goods	8.7	9.0	6.6	6.5	8.5
Food preparation	3.8	4.0	3.4	3.1	4.5
Leather and fur raw materials and products	0.3	0.3	0.3	0.3	0.3
Textile and products, shoes	4.6	4.7	2.9	3.1	3.7
Other commodities	9.9	3.4	3.2	3.6	3.0

Source: State Statistics Committee of Ukraine

Table 5.

Imports in reproductive processes in Ukraine, %

Indicators	2001	2005	2007	2008	2009
Imports share in GDP	53.8	50.6	50.5	54.9	48.1
Imports share in intermediate consumption	–	23	24	26.1	23.4
Imports share in household consumption and public sector institutions		13.2	11.3	12.4	12.0
Imports share in fixed capital gross storage		40.7	39.3	40	44.8
Imports share in retail trade of the marketable resources	24.7	29.5	35.5	36.9	32.6
including foodstuff	6.8	9.1	11.8	11.8	11.6
including non-food products	41.3	42.4	47.1	48.8	45.3

Source: calculated using National Accounts of Ukraine and statistical compilation «Ukraine in 2009».

Imports play an important role in the non-productive processes through its involvement in the regulation of production costs of raw materials (23–26%) and investments (imports form from 40 to 45% in fixed capital gross storage, primarily in engineering industry and construction). In the household consumption and public sector institutions the imports share is not so high (11–13%), however, in the retail trade of the marketable resources it amounts 25–37%, and in non-food products – mostly a half. 70% is the imports share in sales of goods of cultural and community purposes, including 90% in audio, video and camera equipment, 85% are in electrical appliances, 87% is in computer equipment, 79% is in clothing and lingerie, 93% is in footwear.

The sources study of the internal market filling made for six industries that amounted 77% of imports in total, lead us to the next conclusions (Table 6).

Table 6.

Correlation between domestic production and imports in the domestic market[1] of Ukraine in current prices, %

Processing industry	Before crisis						During the crisis			
	2001		2005		2007		2008		2009	
	Domestic production[2]	Imports	Domestic production	Imports	Domestic production	Imports	Domestic production	Imports	Domestic production	Imports
Food industry	88.3	11.7	88.5	11.5	85.7	14.3	82.9	17.1	83.9	16.1
Light industry	22.5	77.5	23.3	76.7	28.7	71.3	26.1	73.9	25.7	74.3
Woodworking industry	52.6	47.4	70.7	29.3	64.4	35.6	67.9	32.1	65.5	34.5
Chemical and petrochemical industry	30.1	69.9	37.7	62.3	34.3	65.7	32.6	67.4	28.4	71.6
Metallurgy	51.3	48.7	70.2	29.8	71.5	28.5	67.7	32.3	67.7	32.3
Engineering industry	32.4	67.6	37.7	62.3	36.7	63.3	33.9	66.1	31.8	68.2

Source: calculated using National Accounts of Ukraine. Tables «Costs-Issue» in main prices for corresponding years.

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[1] Output of each industry in the domestic market is calculated as the sum of domestic production and imports that is equal to 100%.
[2] Volume of domestic production is calculated as difference between gross output and exports.

Firstly, in 2001–2005 there was a decrease of the imports share in all industries included in the analysis. It's necessary to mention that this share fell primarily in the industries which are mostly dependent on imports – light industry (by 0.8%), chemical and petrochemical industry (by 4.2%) and engineering industry (by 4.3%). The imports components reduce in the domestic market of metallurgy (from 48.7% in 2001 to 29.8% in 2005, or by 18.9%) and woodworking industry (from 47. 4% to 29.3% or by 18.1% respectively) was the most important. In the same period there was an increase in domestic production, including woodworking industry, chemical and petrochemical industry, metallurgy, mechanical engineering.

Secondly, already in 2007 the share of domestic production decreased in the most industries (besides light industry and metallurgy) and the imports share grew. This trend deepened in 2008–2009, when the crisis hit all the specified industries. In this sector the most problematic were the light industry (the domestic production decreased to 25.7% in 2009, imports grew to 74.3%), the chemical and petrochemical industry (28.4% and 71.6% respectively) and the engineering industry (31.8% and 68.2%).

Thirdly, even in terms of crisis some industries managed to grow their domestic production in the local market and as a result to hamper imports. For example, companies of the food industry provided for 83.9% of the market with their products in comparison with 82.9% in 2008. Although metallurgy decreased its share of domestic products in the home market in 2008 in comparison with 2007 (to 67.7% in comparison with 71.5% respectively), but it ensured its stable correlation with imports in 2008–2009.

The situation with the growing share of imports in the domestic market of Ukraine is usually perceived as a negative one that inhibits the domestic production development. However, it's necessary to note that in 2008 (the year of Ukraine's accession to the WTO) there were used the means of customs policy for imports, not as severe as in many other countries like in Russia though. Also in some years of the first decade of the new century the national currency depreciation against to U.S. dollar was unfavorable for imports.

In our view, imports increase to Ukraine is caused by the backwardness of the domestic production system, its depreciation and obsoleteness. The fixed assets level of depreciation of the processing industry enterprises reaches 57–60.9%. The absence of structural reforms in the industry, reduce in the technological processes led to fall in the growth rate of output, and production discrepancy to domestic demand by variety and quality. Those processes especially exacerbated over the last decade.

If in 2001–2004 analyzed industries showed a high level of development (woodworking industry output increased by 145%, engineering building output – by 130%, food industry – by 70% and light industry – by 30%), then further growth rates significantly reduced and became negative (Table 7).

Table 7.

The rates of the volume change of industrial production and imports in comparative prices, in % to a previous year

Industries	Industrial production			Imports	
	2001–2004	2005–2007	2008–2009	2005–2007	2008–2009
Food industry	70.5	34.5	–7.5	–1.3	–18.1
Woodworking industry	145	53	–26.4	37.4	–17.4
Light industry	29.8	–5.3	–39.9	22.1	–25.6
Chemical and petrochemical industry	57.4	22.8	–29.6	71.6	–14.5
Metallurgy	39.5	14.8	–35.7	70.9	–45.4
Engineering industry	129.8	42.5	–44.8	92.8	–59.9

Source: calculated using State Statistics Committee of Ukraine data and Ukrainian external information data.

In 2005-2007 the increase rates fell in all the analyzed industries: in food industry they fell 2 times (34.5% against 70.5% in 2001-2004), in woodworking industry – 3 times, in chemical and petrochemical industry – 2.5 times. There was the 5.3% reduction of volume in the light industry. The economic crisis of 2008-2009 is characterized by the production fall in all analyzed industries and most of all in the engineering industry (by 45%), in the light industry (by 40%) and the metallurgy (by 36%).

The largest gap is observed in the progressive types (according to the world trends) of production such as in electronic products, electrical, pharmaceutical industry etc., which share does not exceed 4% of total industrial production[3].

As a result, the niches, filled with import production, emerged in the domestic market and they almost do not compete with domestic producers.

During 2005–2007 imports showed the positive trend and higher growth rates compared with the production, especially with the production of light, chemical, metallurgical industry and engineering. Even in 2008 imports storage grew in all mentioned industries except the chemical industry, although domestic production had already decreased in terms of crisis. And only in 2009 the crisis

[3] National production potential: goals and mechanism for effective development: monograph / [Kindzerskiy U. V., Yakubovskiy M. M., Galitsa I. O. and others]; edited by Ph. D. in Economics U. V. Kindzerskiy; National academy of Science of Ukraine; Institute of Economics and Forecasting. – Kyiv, 2009. – 928 p.

led to a sharp fall in imports through the reduction of domestic consumption and investment demand. The evidence of that fact is the 15% reduction in GDP, fall in investments and fixed assets by 41%, decrease in real disposable income by 8.5% and trade turnover by 21% in volume, including trade of non-food products by 27%.

In 2010 an after crisis economic growth reflected in GDP growth by 4.2%, in industrial output growth by 11.2% and in consumer demand of households by almost 6%. That created favorable conditions for increasing imports of raw materials and consumer packaged goods. The imports of goods and services grew by 11.5% in volume.

It should be noted that the aggregates used in our calculations do not give serious reasons to claim that foreign suppliers are driving the domestic producers out of the market. It is necessary to make a large-scale analysis of goods specification to evaluate the ratio of foreign and domestic producers in the Ukrainian market objectively. Such an attempt was made in the study of Chinese goods expansion of metal (ferroalloys in particular), chemicals (polymers and plastics) and light industry (cotton), machinery (engraving and milling equipment) to the Ukrainian market. The results of regression analysis indicate that there is no displacement of domestic suppliers in the internal market by importer's specified Chinese goods[4].

As any economic process imports require regulation. According to the world practice, there is a number of means for imports regulation, including devaluation of national currency and the introduction of higher tariffs (it is possible temporarily even under the WTO membership). Besides, the anti-dumping and countervailing duties are applied to counteract the unfair competition.

The national currency devaluation means redistribution of the national wealth for the benefit of exporters. That mean of regulation affects the rise in imports prices and increase of hryvnia prices in the domestic market.

The exchange rate effect on prices in national currency is determined by the transfer effect. This effect is realized through indirect impact on prices of imported production, through the prices change for domestic products due to the rise or fall in prices of the imports intermediate products and through the prices change for domestic goods that compete directly with imported ones.

The interconnection between exchange rate and prices appears through the prism of formation of the import prices. If the prices are formed in the currency of the producing country, the full effect of the rate transfer is observed. And if prices are formed in the currency of the consumer-country, there is no such an effect.

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[4] Makogin Z. Y. Study of the impact of Chinese goods excessive expansion to the Ukrainian market // Economy and State. 2011 – №2. – P. 76–78.

The transfer effect of the exchange rate on consumer prices in CIS and other countries with emerging economies was investigated during 1999–2004 by L. Korhonen and P. Wachtel (Table 8).

Table 8.

The transfer effect estimate for the specified countries

CIS countries	Transfer effect	Countries with emerging markets and IT implementation	Transfer effect
Kyrgyzstan	1.62	Poland	0.09
Ukraine	0.64	Chili	0.07
Republic of Moldova	0.49	Hungary	0.06
Armenia	0.25	Czech Republic	0.03
Georgia	0.14	Brazil	0.02
Russian Federation	0.14–0.20		

Source: Korhonen L., Wachtel P. A Note on Exchange Rate Pass-through in CIS Countries // BOFIT Discussion Papers. – № 2. – 2005.

According to a study, in the CIS countries, where inflation is defined as an ambiguous value, the transfer effect was quite significant, especially in Kyrgyzstan, Ukraine and Republic of Moldova, where it is much higher than in other countries of this group. However, even the lowest transfer effect in Georgia and Russian Federation is significantly higher than in countries with emerging markets with new information technologies implementation. Thus, in Poland the transfer effect of the exchange rate on consumer prices is 7 times lower, and in the Czech Republic is 21 time lower than in Ukraine.

J. Taylor[5] hypothesized about the relationship between inflation and the transfer effect. According to J. Taylor, low inflation reduces the margin for the sale of goods, that leads to lower prices and inflation, which, in its turn, can further reduce the margin.

[5] Taylor J. Low Inflation, Pass-through and the Pricing Power of Firms // European Economic Review. – 2000. – Vol. 44. – № 7. – P. 1389–1408.

Further empirical studies have shown that the transfer effect is much greater when the national currency gets weaker than when it strengthens[6].

The magnitude of the transfer effect depends on the level of competition in the market, elasticity of demand, the level of import substitution and geographical structure of imports. For example, the higher the competition is in the market, the more pricing is focused on market supply and demand, that influences on the weakening of the transfer effect of the exchange rate and domestic prices increase. The price elasticity of demand or the level of the imported goods substitution by the domestic ones acts in the same direction.

Thus, a high level of the transfer effect in Ukraine, as well as the inflation, is caused by the weak competition in the markets, lack of imports substitution, and a profound devaluation of national currency as a result.

The national currency weakening has a positive impact on the domestic producers in currency, and increase of the competitiveness of their products in the world markets. A simultaneous depreciation of the national currency increases the price of imported products in hryvnias, thus protecting Ukrainian goods from rivalry with imports in the domestic market. However, this action of a state unequally influences on different groups of economic agents, since they have dissimilar interests. First of all, the national currency devaluation influences on consumers through the price increase. But also that increases the cost of the raw materials for producers, investments, encouraging a new round of rise in prices.

In 1996 there was established a ratio of hryvnia to the U.S. dollar, when the national currency was introduced in circulation. Since then it has devaluated more than 4 times that was displayed in the rise of prices. According to the State Statistics Committee of Ukraine, inflation for 2000-2010 amounted 368%. But what is the most sensitive for the investors' behavior that is the influence on the wellbeing of citizens, not the prices increases but a jumping growth rate, what means the unpredictability of the state policy in this sphere.

An analysis of the nominal exchange rate of hryvnia to U.S. dollar for the past 10 years shows that since 2001 it has strengthened and only the financial and economic crisis led to a deep devaluation of hryvnia (Figure 1).

Hryvnia's strengthening till 2007 promoted growth of imports, as well as the convergence trajectory of import prices rise and inflation, that is explained by the transfer effect. The crisis in late 2008 inhibited the influence of the hryvnia's sharp drop on imports, but in 2009 there was the reduction in purchase of imported goods due to increase in imports prices by 1.5 times and devaluation in the domestic market.

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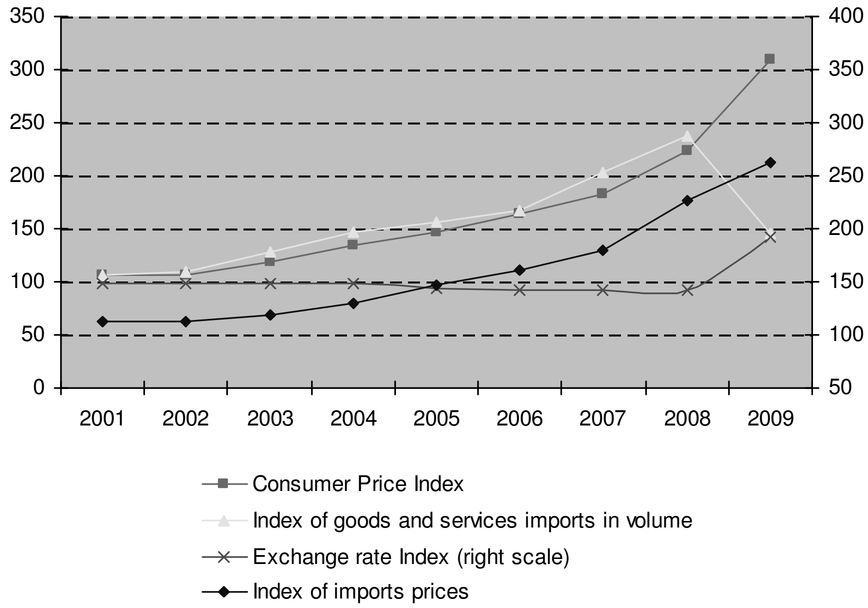
[6] Kataranova M. The relationship between exchange rate and inflation in Russia // Problems of Economics: Russian Academy of Science / edited by Abalkin L. I. – 2010. – № 1. – P. 44–62.

Figure1.

The dynamics of imports in volume and prices, dynamics of inflation and exchange rate (%, 2000 is 100 %)



Source: calculated using State Statistics Committee of Ukraine data

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A sharp depreciation of the national currency has the complex social consequences because the rapid rise in prices reduces welfare, especially of the poorest people. Regarding this, we can agree with Professor V. Pynzenyk concerning the advisability of transition to a flexible exchange rate[7] that will reduce the negative effects of a deep devaluation, lower exchange rate volatility and predict its changes.

During Ukraine's independence its duties and tariff regulation of imports is characterized by constant changes in direction – from liberal policy to different intensity of protectionism and again the return to liberalism, but only with some attempts of protectionist measures implementation (Table 9).

[7] Interview with V. Pynzenyk on «Era» Channel // http://www.pynzenyk.com.ua/Media/Video/video_list.php?SECTION_ID=76&ID=670ю

Table 9.

Evolution of duties and tariffs regulation of imports in Ukraine

Period	Type	Features
1992–1993	Liberalization of foreign trade	Most tariffs in the Common Customs Tariff of Ukraine were low (0–10%), and tariffs at 15–30% were imposed on a small part of goods. Duties performed mostly fiscal functions. The budget was filled due to foreign exchange earnings and exports duties, and also due to high tariffs of the imports duties on the profitable foreign production (excisable and marketable goods).
1994–1995	Moderate protectionism	Customs refocuses on defense of the national economy from competition with imports. The foundation of an agreed customs and tariff policy were laid. Thus, the duty was eliminated on goods that didn't have domestic analogues, but the tariffs on imports were raised on some products. For example, high tariffs were imposed on farm machinery, clothing, furniture, automobiles and building materials.
1996–1998	Protectionism	Customs policy aims to protect domestic producers by abolishment of national preferences and use of administrative and technical measures.
1990–2000	Peak of protectionism	Customs policy was oriented to protect the domestic producers. The tariffs were revised. The tariffs for raw materials were reduced and tariffs for finished goods, analogues of which were produced in Ukraine, rose.
2001–2004	Gradual shift from protectionism to liberalization of foreign economy	The Law of Ukraine «On Customs Tariff of Ukraine» adopted in 2001 and the new Customs Code of Ukraine adopted in 2002, joining the International Convention on the Harmonized System of cancellation and coding of goods, contributed to approximation of duties and tariff regulation methods to the world practice that made customs policy more transparent.
2005 – till now	Liberalization of foreign trade with elements of protectionism	Since 2005 the imports tariffs adjusted in accordance with agreements of Ukraine's WTO accession, including the reduction of imports duty set at prohibitive level, the elimination of excessive specification and considerable diversity of the rates on the similar goods. Customs policy is aimed at liberalization of foreign trade and legalization of the underground imports flows, as well as protection of domestic producers and increase of state revenues.

Source: Levchenko N. M. Assessment of the current tariff regulation of the meat imports by the State in terms of European integration / N. M. Levchenko // Economy and the State. – 2011. – № 1. – P. 157–160.

Today, duties and tariff policy is based on the WTO rules and requirements consideration. However, Ukraine's attempts to join the WTO as soon as possible reflected in the reduction of protection of some positions, such as agricultural products, textiles and clothing, steel and toys, wood, paper, furniture, etc.

The reduction of the duty protection of industries, which produce scientific and medical equipment and information technology, is absolutely acceptable. The specified products are either not produced at Ukrainian enterprises, or produced by low-technology, which does not comply with the modern demand. So the reduction of tariff protection will have positive effects, as it will lead to increase of revenues from investment products imports.

The average bound rate in Ukraine is 11.16% for agricultural products, 4.85% for manufactured goods and an average amounts 10.07% and 4.77% respectively.

In the first year of Ukraine's membership in the WTO the Government tried to increase by 13% of the import duty on some goods which covered two dozen positions temporary. This measure was not supported by the WTO, as a result imports tariffs were temporarily increased only on refrigerators and cars.

Recently, the information from Ukrainian auto industry have appeared concerning an average 40% tariff implementation on the import of cars (in addition to the existing 10% tariff). But first of all this measure contradicts the WTO requirements. Secondly, it preserves the situation in the domestic auto industry where competitive cars are not produced, and the older cars that had been removed from production in Russia and China are built. Thirdly, it won't favor the foreign investments through instability and contradictory laws. Finally, this will cause a rise in prices of the domestic car market.

It would be appropriate to implement a zero tariff rate on imports for a new automobile plant equipment for the car production development in Ukraine, and also to create a favorable investment climate (for example, the exemption from the income tax and from payments for land, the implementation of accelerate depreciation and etc. for the period of plant establishment). In case of this project implementation the buyers of Ukrainian cars can be encouraged by credits loans without charging interest or lending at the refinancing rate of the National Bank of Ukraine[8].

According to the WTO rules, in three years the country-member may review some agreements that don't correspond to its national interests. In Ukraine this applies to customs tariffs on agricultural sector, which are 1.5–3.0 times lower than in other exporting countries of these products. Besides, the sectoral agreements provide for a zero tariff rate on steel, toys, furniture and certain positions of light industry. Ukraine has significant resources for these goods production. That's why it would be appropriate, in our opinion, to pose questions about

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[8] Internet resources: http://www.ukrautoprom.com.ua/

the rejection of zero tariff rates and the provision of a greater protection for domestic producers in negotiations within the WTO framework.

Today, customs and tariff policy of Ukraine (except for regulation of energy, characterized by specific problems) complies with the WTO rules. It is aimed at liberalization of the underground imports flows and at budget revenues increase.

But the main problem occurs when compiling import transactions. It is the attempt of the foreign economic activity subjects to understate the customs value of goods so that to reduce custom duties. There are many common schemes such as a substitution of the documents, especially invoices, broker's inclusion in the transaction, placing goods on consignment (customs) stocks before exports to Ukraine, etc. These schemes are applied for consumer goods most of the times.

Over time, this problem does not lose relevance. During 2004–2010, the share of customs duties, which was additionally counted and paid as a result of adjustments to the customs value, increased by 2.5 times, from 2.4% to 5.8%, in the total amount of customs duties.

In fact, customs revenue payments to the budget, adjusted of the declared customs value of goods during 2004–2010, rose from 439.6 million of hryvnias to 5016 million of hryvnias, which is almost 11.5 times.

However, analysis of foreign trade operations indicates that the proportion of products designed using the method of evaluation at the price specified in the account (invoice), served Customs (i. e., without adjusting the customs authorities), grew by 10% and amounts more than 91 %. In this case, the average customs value of goods has increased: by 22.7% in general – from 0.65 to 0.79 dollars U.S. per 1 kilo but not including customs clearance of natural gas-by 57.3%, from 0.76 to 1.19 dollars U.S. per 1 kilo.

This may indicate a gradual withdrawal of the tax base of the shadows. To reduce the shadowing of foreign trade it is necessary to strengthen control over imported products that cross the customs border, so that the quantity of goods declared in the documents correspond to their real value. With this purpose it would be appropriate to cooperate with customs of the trade-partners countries so that to ensure the comparability of imports of certain products in Ukraine and its exports from other countries. The Baltic countries and other developed countries have an experience of such cooperation based on information technologies.

As a conclusion, it should be noted that the strategy of protecting the national interests of Ukraine in the domestic market and the use of any means of regulating import should be closely combined with the intensification of modernization processes and economic diversification and its competitiveness increase on this basis.

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