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PAPER

Modern Globalization Peculiarities and Its Impact on Ukraine

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Abstract Nowadays, there is a great impact of economic globalization on countries' development, especially in the term of IT wide spreading throughout the world. The paper investigates current globalization peculiarities and its impact on the economy of Ukraine.

Digital technologies bring new opportunities for the growth of national economies and its global competitiveness. Under the influence of globalization, the global economy is undergoing a dramatic transformation, driven by a new wave of technological innovation, which is now characterized as the fourth industrial revolution. Besides, globalization generates numerous risks to sustainable economic growth. In the context of globalization, many countries become extremely dependent on changes in the structure of international trade. Ukraine with increased openness to the outside world is interested in structural parameters of international exchange.
The paper discusses the problems of Ukrainian economy development and further digital transformation. Current production and export- import structure are revealed in the context of Ukrainian economy simplification to the structural characteristics of partner countries.

Keywords: globalization, digital economy, foreign direct investment, trade balance, integration.

JEL Classification: F6, F63.

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Introduction

Progressive globalization fundamentally changes the relationship between external and internal factors of national development. As socio-economic phenomenon, globalization is ambivalent and might bring new opportunities and threats for stable socio-economic development. Globalization opens up enormous opportunities for expanding trade and economic ties between states, contributing to the overflow of capital, technology, and labor in any direction on the globe. As well global and regional trade as economic integration are a key factor in increasing the efficiency of national economies.

Digital technologies bring new opportunities for the growth of national economies and their global competitiveness. The digital economy, as one of the powerful manifestations of modern globalization, helps to accelerate economic development, to increase productivity, to create new markets and industries. It also gives new opportunities for inclusive and sustainable growth. However, the acceleration of economic development is reached by those countries and economic associations that systematically build the foundations and mechanisms of leadership in the digital economy.

Analysis of recent research and publications.

Many foreign and domestic scientists devoted their works to the study of globalization. They consider the global model of economic development as an integration of structural elements of the international economic system based on production internationalization deepening, transnationalization growth, market system modernization and global governance formation. Economic globalization is considered as asynchronous and asymmetric process because some territories are highly globalized, while others are limited. Such divergence leads to deepening of imbalances, complications of relations and dependencies. However, modern trends of globalization requires further investigation.
The object of the paper is to explore new current trends of globalization and its impact on the economy of Ukraine.

Methodology

The paper uses modern methods of research, namely: system-analytical method (to generalize scientific concepts, developments and proposals of leading domestic and foreign scientists in scope of globalization); method of functional-structural analysis (to formulate the problem under study and tracing the cause and effects of its occurrence); cluster method (to analyze the classification of the main factors affecting of the global economy); scientific abstraction (to model current trends of globalization development), method of system analysis and generalizations.

Discussion

According to the Digital Economy Report (UNCTAD, 2019), much of the global wealth associated with digitization is created in the United States and China, and the rest of the world, especially Africa and Latin America, is far behind. In particular, the

US and China account for 75 % of all patents related to blockchain technology, 50 % of the world's Internet costs, more than 75 % of the cloud computing market and 90 % of the market cap of the world's 70 largest digital platform companies.

Seven large multinational corporations, namely Microsoft, Apple, Amazon, Google, Facebook, Tencent and Alibaba account for two-thirds of the aggregate market capitalization of the 70 largest digital platforms. In 2017, the aggregate value of digital platform companies with a market capitalization of more than $ 100 million exceeded $ 7 trillion. For example, Amazon's internal payment service is already used by 33 million customers in 170 countries. Deposits acceptance is the only thing that Amazon can't provide. But it may not be for long either. The company recently announced that it is in talks with several major banks about a joint project that will allow all Amazon customers to automatically receive current bank accounts.

Some digital platforms dominate on key markets. Google company controls about 90% of the search market for the Internet, and Facebook company accounts for two-thirds of the global social networking market and its platform is the most popular social networking site in more than 90% of countries (Borzenko and Glazova, 2019). In China, the Wechat communications network (owned by Tencent) has over one billion active users. Its payment system, together with Alipay (owned by Alibaba), covers virtually the entire Chinese payment market through the cellular network. At the same time, Alibaba accounts for almost 60% of China's e-commerce market.

These companies are actively enhancing their competitive position by the following ways: absorbing potential competitors and related products or services; lobbying policymakers at both national and international levels; establishing strategic partnerships with leading multinationals in traditional sectors such as automotive, semiconductor industry and retail.

Under the influence of globalization, the global economy is undergoing a dramatic transformation, driven by a new wave of technological innovation, which is now characterized as the fourth industrial revolution (Kirilov, 2016).

At the same time, globalization processes generate numerous risks to sustainable economic growth (Slogub, 2019). Among the factors that cause slowdowns in economic growth are the following:

- *conditions of international trade*, deterioration of which were caused by the "trade war" between the US and China, the strengthening of protectionism in bilateral and multilateral trade relations, the uncertainty of global prospects for the development of multilateral system of international trade within the World Trade Organization, etc. In the run-up to the G7 Leaders' Meeting in June 2018, the United States imposed tariffs on steel and aluminum imports from the European Union, Canada, Mexico and some other countries. US President D. Trump has announced his intention to set a 20% tariff on imports of vehicles from the European Union. The European Commission has prepared global countermeasures totaling $ 294 billion. The United States, accounting for about one-fifth of total merchandise exports. Finally, President D. Trump and former European Commission President Jean-Claude Juncker agreed in July 2018 to work on reducing tariffs for both parties. In October 2018, the US, Mexico, and Canada revised the NAFTA: USMCA (US-Mexico-Canada Agreement) trade agreement (The Global Risks Report, 2019).

- *protectionism in foreign investment*: foreign investment has become more linked to geopolitical positioning. In particular, developed countries are stepping up their regulatory framework to block investment in strategic sectors, especially in the latest technologies; foreign investment has become more geopolitical. For example, in August 2018, the German government announced a reduction in the limit at which foreign investment could be blocked.

In recent years, China has significantly reduced its FDI constraint, but remains one of the most restrictive countries in the world. Although in 2018, China has announced a further reduction of its "negative list" – sectors that are not allowed to invest by foreign businesses or where they can operate only as part of a joint venture with Chinese entities. As in the trade sector, if the climate for cross-border investment flows continues to deteriorate, this will impede global economic growth and increase economic and geopolitical tension risk (IMF, 2019).

- *external debt*: the total global debt is about 225% of world GDP, while in countries with systemically significant financial sectors – it's up to 250% of GDP (210% in 2008). The total accumulated external debt of developing countries and countries with economies in transition has more than doubled – from $ 4.5 trillion in 2009 to about $ 9.7 trillion in 2018. The overall ratio of debt service costs to exports increased from 8.1% in 2008 to 12.4% in 2018 for developing and transition economies. In 2018, gold and foreign currency reserves of developing countries decreased to $ 6.6 trillion (from $ 6.7 trillion in 2017). The ratio of gold and foreign currency reserves to the volume of short-term debt sharply decreased from 305% in 2017 to 260% in 2018 (Guterres, 2019).

Thus, the strengthening of globalization and integration processes actualizes the question of choosing the place and role of the Ukrainian economy and its components in the geo-economic space. The institutional capacity to optimally use of the globalization benefits and counteract its threats, the ability to formulate appropriate mechanisms for the development of global competitiveness should be considered as key economic policy objectives (Borzenko, 2019).

Ukraine has entered an era of dramatic global transformation with a significantly deformed economic structure, which is undergoing a clear structural simplification and approaching the structural characteristics of less developed countries. It is increasingly gaining a peripheral status within the world economy, which, under the influence of globalization and internal factors, exacerbates problems in the areas of foreign trade, foreign debt management and attracting foreign investment.

In the context of globalization, the economy of the vast majority of countries throughout the world becomes extremely dependent on changes in the structure of international trade. For instance, Ukraine with increased openness to the outside world (the share of exports and imports relative to GDP exceeds 50%) is interested in structural parameters of international exchange (Pelo, 2013). Changes in the structure of Ukraine's exports (in the absence of an effective national policy on the implementation of structural priorities

for economic development) play a powerful catalyst for the processes of structural simplification of the Ukrainian economy and its approximation to the structural characteristics of less developed countries in the world (Korablin, 2017).
Ukraine does not exploit the potential of the global tendency to expand global value chains, but belongs to the countries that are significantly vulnerable to the supply of raw materials on the world markets. This is evidenced by the results of the analysis of the main tendencies of foreign trade relations for 2014-2019. The dynamics of the foreign trade balance for 2014-2018 is characterized by negative 2.5 5 slowdown (from -4.6 to -11.4 billion USD). This tendency is caused by the lack of competitiveness of national production (Slovoidilo, 2019). Data on foreign trade for 11 months 2018 and 2019 indicate the preservation of the negative foreign trade balance at the level of 2018 (Table 1).

Table 1. Dynamics of the foreign trade balance of Ukraine, (million USD)

Data	**2014**	**2015**	**2016**	**2017**	**2018**	**Jan-Nov 2018**	**Jan-Nov 2019**
Balance of goods and services	**-4 606**	**-2 362**	**-6 453**	**-8 644**	**-11 367**	**-10 536**	**-10 942**
Balance of goods	**-7 128**	**-3 455**	**-6 942**	**-9 663**	**-12 714**	**-11 658**	**-12 556**
Export of goods	50 552	35 420	33 560	39 701	43 341	39 547	42 255
Import of goods	57 680	38 875	40 502	49 364	56 055	51 205	54 811
Balance of services	**2 522**	**1 093**	**489**	**1 019**	**1 347**	**1 122**	**1 614**
Export of services	14 884	12 442	12 448	14 167	15 794	14 310	15 632
Import services	12 362	11 349	11 959	13 148	14 447	13 188	14 018

Compiled according to the NBU data

In the structure of goods export started from 2015, 41-45% are food and raw materials for their production, about 25% – ferrous and non-ferrous metals and articles thereof, up to 9% – mineral products, which indicates the raw material nature of export potential (Movchan, 2019; MinFin, 2019), (Table 2).

Table 2. Dynamics of exports commodity structure in 2014-2018, %

Name of product groups	2014	2015	2016	2017	2018
TOTAL, mln. dollar USA	50 552	35 420	33 560	39 701	43 341
Food products and raw materials for their production	16 670	14 478	15 250	17 739	18 594
Mineral products	5 291	2 672	2 391	3 517	3 883
Chemicals and related industries	3 730	2 436	1 832	2 052	2 381

Name of product groups	2014	2015	2016	2017	2018
Wood and and articles thereof	1 954	1 540	1 510	1 647	1 965
Industrial products	704	503	463	575	649
Ferrous and non-ferrous metals and articles thereof	14 953	9 164	8 099	9 890	11 402
Machines, equipment, vehicles and appliances	5 432	3 339	2 748	2 862	3 002
Miscellaneous *	1 818	1 288	1 267	1 419	1 465
Structure, %					
TOTAL	*100,0*	*100,0*	*100,0*	*100,0*	*100,0*
Food products and raw materials for their production	33,0	40,9	45,4	44,7	42,9
Mineral products	10,5	7,5	7,1	8,9	9,0
Chemicals and related industries	7,4	6,9	5,5	5,2	5,5
Wood and and articles thereof	3,9	4,3	4,5	4,1	4,5
Industrial products	1,4	1,4	1,4	1,4	1,5
Ferrous and non-ferrous metals and articles thereof	29,6	25,9	24,1	24,9	26,3
Machines, equipment, vehicles and appliances	10,7	9,4	8,2	7,2	6,9
Miscellaneous *	3,6	3,6	3,8	3,6	3,4

Compiled according to the NBU data.

In the structure of goods imports there is a significant increase from 18.6% to 28.5% in the share of machines, equipment, vehicles and devices, comparing with the other goods groups (Table 3).

Table 3. Dynamics of import commodity structure in 2014-2018,%

Name of product groups	2014	2015	2016	2017	2018
TOTAL, mln. dollar USA	57 680	38 875	40 502	49 364	56 055
Food products and raw materials for their production	6 025	3 413	3 863	4 265	5 020
Mineral products	15 254	11 186	8 075	11 971	13 587
Chemicals and related industries	10 310	7 540	8 297	9 575	10 439
Wood and and articles thereof	1 466	935	1 033	1 148	1 321

Industrial products	2 615	1 750	1 957	2 128	2 575
Ferrous and non-ferrous metals and articles thereof	3 208	1 898	2 192	2 878	3 430
Machines, equipment, vehicles and appliances	10 724	7 502	10 353	13 569	15 991
Miscellaneous *	8 078	4 651	4 732	3 830	3 692
Structure, %					
TOTAL	*100,0*	*100,0*	*100,0*	*100,0*	*100,0*
Food products and raw materials for their production	10,4	8,8	9,5	8,6	9,0
Mineral products	26,4	28,8	19,9	24,3	24,2
Chemicals and related industries	17,9	19,4	20,5	19,4	18,6
Wood and and articles thereof	2,5	2,4	2,6	2,3	2,4
Industrial products	4,5	4,5	4,8	4,3	4,6
Ferrous and non-ferrous metals and articles thereof	5,6	4,9	5,4	5,8	6,1
Machines, equipment, vehicles and appliances	18,6	19,3	25,6	27,5	28,5
Miscellaneous *	14,0	12,0	11,7	7,8	6,6

Compiled according to the NBU data.

Ukraine has no favorable investment climate for attracting foreign capital in the real economy, on the background of speculative operations with securities.

For the period 2000 - 10 months of 2019, the total net inflow of direct and portfolio foreign investments and foreign loans to Ukraine amounted to $ 185.3 billion (Pravda, 2019). Significant financial resource was able to provide important structural changes for the country, to positively influence on the development of the economy, to promote the development of domestic production, etc. (Cairo, Titar, 2013)

At the same time, non-resident income from foreign investments (direct, portfolio, other) of $ 104.4 billion was transferred from Ukraine during the same period, including January-October 2019 – $ 7.2 billion . The factor of repatriation of non-resident income has a negative impact on the current balance account of Ukraine. For the eleven years in a row, the repatriation of non-resident income accounts for about 10% of all payments on the current account of the balance of payments, and in some years its amount has exceeded the negative balance of payments for goods.

At the same time, the dynamics of foreign equity and loan capital flows to Ukraine during 2000-2019 shows the following:

- during 2000 - 10 months of 2019, net inflow of foreign direct investment (FDI) amounted to $ 85.5 billion. At the same time, revenues in the amount of $ 36.7 billion were paid to foreign investors during this period, accounting for 43% of net revenues;

- there is a clear interest of foreign investors in government debt securities investing. The share of such investments during the period 2000-2019 evaluated 63% (the State Statistics Service of Ukraine, 2019).

This is due to the extremely high yields of government securities and their relatively low riskiness. During 2000-2019, net investments in portfolio investments in Ukraine totaled $ 38.2 billion. At the same time, non-resident income from these investments amounted to $ 23.9 billion, which is equivalent to 62% of net investment. During 2018-2019, non-resident investments in government securities significantly exceed FDI inflows into the real sector of the economy (in particular, in January-October 2019 – 2.3 times), which is evidenced mainly by speculative motives of foreign investors;

- the influx of large amounts of speculative capital into the Ukrainian securities market generates risks of potential complications on the foreign exchange market and devaluation of the national currency.

Currency and refinancing risks inherent in Ukraine's sovereign debt structure remain critically high. Although the substitution of external commercial loans by internal ones and the maturity of the latter have had a positive impact on the debt risk profile for the public finance sector. Government debt risks remain high. Thus, government debt and government guaranteed debt relative to GDP decreased from a peak level of 81% of GDP (2016) to 51.2% of GDP (2019).

Public and government-guaranteed debt in October 2019 was 216% and still exceeded the debt ceiling (200% of revenues). In Ukraine, the ratio of short-term external debt to gross international reserves at the end of the second quarter of 2019 was 215.3% and was characterized by declining dynamics. But even these changes did not achieve the maximum level (100%) (the National Bank of Ukraine, 2019). The analysis of debt repayment indicators during 2013-2019 indicates an increase in individual debt indicators in 2019. The volume of debt repayment and debt servicing relative to GDP reached a maximum of 14%. And the share of public debt payments in budget expenditures increased to 36.7%.

Conclusion

Globalization is characterized by enormous opportunities on the one hand and negative trends on the other. Ukraine needs to take advantages of positive globalization possibilities and counteract the negative ones. The current tendencies of Ukraine's foreign economic activity testify the ineffectiveness of the state policy on purposeful globalization opportunities. Given the unfavorable scenario of global economy development (slowdown of economic growth, crisis of foreign debt, increased protectionism in the sphere of international trade and foreign investment, etc.), the country may suffer another loss of export potential, reduction of foreign investments, foreign debt management. Ukraine needs to modernize its existing economic policy in order to be able to realize long-term development priorities in the global environment. We need to develop a long-term foreign economic strategy that addresses all the challenges posed by global challenges. Long-term development priorities will be a new system of mutually agreed management measures for economic, social and environmental dimensions aimed at forming public relations on the basis of de-oligarchization, equality and security of doing business in Ukraine, solidarity, environment. In this context, the institutional capacity of public authorities to ensure macroeconomic stability should be substantially strengthened, based on the implementation of complex strategic plans for socio-economic development of Ukraine for a period of 5-10 years, including foreign economic aspect – competitive geo-economic positioning in the world. In the long term, understanding and preventing risk situations will have a positive effect, thanks to the government ability to global challenges respond.

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