Title
Ukraine’s entrepreneurship environment
&
Competitiveness

School of Humanities
MA in Black Sea Cultural Studies

Name: Efransia – Marianthi Tougelidou
Student ID: 2201100031
Supervisor: Professor Harry Papapanagos
Contents

Abbreviations-Acronyms…………………………………………………
Introduction……………………………………………………………
Chapter 1
The GCI Index…………………………………………………………
The EDB Index…………………………………………………………
List of tables…………………………………………………………
Ukraine at a glance…………………………………………………
Historical overview…………………………………………………
Chapter 2
Competitiveness in Ukraine…………………………………………
Doing business in Ukraine…………………………………………
Conclusions…………………………………………………………
Abstract……………………………………………………………
Bibliography………………………………………………………
Abbreviations-Acronyms

- BS-10: affiliation of 10 Black Sea countries.
- BSEC: Black Sea Economic Co-operation.
- CIS-13: Commonwealth of Independent States (here the 13 former Soviet countries).
- EDB: Ease of Doing Business.
- EU: European Union.
- EU-27: the enlarged European Union, consisting of 27 member-states.
- FDI: Foreign Direct Investment.
- FSU: Former Soviet Union.
- FSU-N: Northern Former Soviet Union Countries.
- FSU-S: Southern Former Soviet Union Countries.
- FTA: Free Trade Agreement.
- GCI: Global Competitiveness Index.
- GDP: Gross Domestic Product.
- GUAM (full name: GUAM Organization for Democracy and Economic Development): the name is derives from the initial letters of Georgia, Ukraine, Azerbaijan and Moldova.
- ICT: Information and Communication Technologies.
- IMF: International Monetary Fund.
- NATO: North Atlantic Treaty Organization.
- PPP: Purchasing Power Parity.
- VAT: value-added tax.
- WTO: World Trade Organization.
Introduction

The essay examines the competitiveness and the entrepreneurial environment of Ukraine, through the analysis of two benchmarking indicators; the GCI (Global Competitiveness Index) and the EDB (Ease of Doing Business) Indexes.

The presentation of the above indexes is given through 10 tables which contain the figures, namely the scores and the ranks, achieved each year, not only by the examined country, but also by the EU-27 and the BS-10 countries in total. The EU-27 encompasses the 27 member states which are located mainly in Europe and have joined together in an economic and political union, the European Union. In the same way, the BS-10 encompasses 10 countries surrounding the Black Sea. Though the last group of countries do not constitute any kind of association (each one is member in several others), these countries are related geographically, historically, culturally, economically and socially. Moreover, the term BS-10 is used in this essay, as well as in many essays of economic nature, for utilitarian and brevity purposes.

Since the measurements are presented, Ukraine’s scores and rates are subjected to a comparative analysis with the EU-27’s and the BS-10’s scores. Through this comparison, the accession of the Ukrainian entrepreneurial environment is feasible and the advantages or the disadvantages of the Ukrainian economy and the laws that regulate her are also analyzed. For that reason, the contribution of bibliography related to the economic science is essential.

The analysis is the most essential and crucial part of the essay, which should hopefully be a useful tool for any businessman interested in initiating an enterprise in Ukraine, or a policy maker in the same country.

All the figures listed at the tables below are derived from the measurements reflected on the yearly reports of the World Economic Bank and the World Economic Forum. The data are available at the web sites of the above organizations in pdf formats.

In the first chapter, there is a presentation of the GCI and the EDB indexes, along with their pillars, as well as some key information concerning Ukraine. The second chapter, which is the most crucial part of the essay, is an attempt for analysis of the competitiveness in Ukraine and its entrepreneurial environment, by using the reports of the two Indexes, which are presented and grouped in tables.

The analysis will be based in the yearly measurements of the World Bank, and the most important facts will be highlighted. This means that the measurements will be related
and supported by historical or political incidents that took place the corresponding year. For instance, if there is a vast fall or rise in a pillar, there must be an explanation for this. An adoption of a new law for example, that concerns the taxation, or a measure released by the government, can be the answer. In addition, comparisons of Ukraine’s ranks with the corresponding ranks of the EU-27’s and the BS-10’s will be attempted, though not in a much extended degree, as the country of interest is Ukraine. This means that there won’t be analysis on the facts that affected EU-27’s or BS-10’s results (only in special cases, when it’s necessary), but comparison between them and Ukraine, in order to have a clearer picture. Finally, the third chapter contains the conclusions, namely the evaluation of the government’s efficiency, or inefficiency, as well as predictions concerning the future of the Ukrainian economy and suggestions aiming its strengthening and its improvement.

Chapter 2 provides an overview on the position of Ukraine in the Global Competitiveness and the Ease of Doing Business Indexes. It also compares Ukraine’s performance against the sample of economies covered by Global Competitiveness and Doing Business Reports, identifies the strengths and the weaknesses of the Ukrainian economy and the evolution in the country’s rankings over the time.
The GCI Index

According to the World Economic Forum, a nation’s level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens. We define the competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country (Porter, Schwab, 2008: 3).

The Forum adds that the productivity level is a determinant factor for the welfare of a country, as economies with high levels of competitiveness provide higher economic earnings for their citizens, in contrast with the less competitive ones. Moreover, the level of a country’s productivity is the key factor for the reimbursement rates coming from the country’s investments, something which in turn defines the country’s potential for development (Porter, Schab, 2008: 3).

Economists, on their effort to define what constitutes the competitiveness of an economy, focused on many different aspects of competitiveness. These aspects are grouped in 12 pillars, which measure the performance of every country in each aspect of competitiveness. The pillars are:

- **Institutions**: the first pillar of economic competitiveness sets the context in which the labor force, the enterprises and the state interact with each other in order to produce revenues and richness. Institutional framework defines the measures and the policies that the states enact and affects the decision making processes concerning investments and development. For instance, the property owners or enterprises feel more confident when they invest within a secure economic frame, which protects their rights and guarantees their transactions. This enhances the development of the markets and it is up to the state authorities whether they will apply promising measures for the investors. Government should enforce measures against bureaucracy and other complicated procedures which put obstacles to the country’s economic growth.

- **Infrastructure**: the infrastructure is a crucial part of competitiveness. An efficient infrastructure determines the functioning of the economy and also defines the location and the type of the economic activities occurring in her. When the infrastructure is well designed the distance between the regions is limited and creates a more coherent market. The modern public transportation as well as the well designed and preserved road networks also contribute to the linkage between the economic activities and the schools and accommodate the transportation of the
workers from their jobs to their home or the transportation of the goods to the markets. The adequate supply of electricity as well as the quality of telecommunications are also two of the basic requirements for efficient infrastructure.

- **Macroeconomic Stability**: is a significant element for enterprises and for the competitiveness of an economy. Though this factor itself is not exclusively connected or responsible for the increase of a country’s production, it is certain that the instability of the macroeconomy puts obstacles to economic competitiveness, as the enterprises are depending on stable inflation rates in order to take initiatives. On the other hand, the state should be free of previous years’ debts in order to provide its services with the best possible way.

- **Health and Primary Education**: workers who face health problems are not able to work in high productivity levels or in many cases are absent, which has significant costs for the employees and for their businesses. Governments should invest in efficient and modern health systems and services for that reason. Primary education is considered to be necessary when it comes to the workforce’s knowledge, as the abilities of workers who haven’t received this basic education are restricted to manual processes. Such a workforce is not able to carry out more complicated work and is an obstacle to the economy, as the enterprises can’t launch more sophisticated products.

- **Higher education and training**: higher education is important when it comes to economies that want to proceed from simple production procedures to more sophisticated and competitive ones. Namely, this pillar contains the rates of the workers who have received secondary and tertiary education. Beyond this, the pillar measures the quality of the education and training provided by the enterprises to their staff, as the lifelong education is considered to be an essential factor for the improvement of the workers’ skills, who need to cope with the continuously changing economic environment.

- **Goods market efficiency**: countries with healthy economies should be able to produce services and products which are in the highest demand and distribute them in the most profitable and effective way. This is not only up to the businesses responsibility. Governments as well have to create a favorable environment for the businesses and the goods’ distribution, such as withdrawal of overwhelming taxation or restrictive measures concerning foreign property or FDI (Foreign Direct Investment). The efficiency, and consequently the competitiveness of an economy depends also on the consumer demand. This indicates consumer orientation actions,
as the consumer’s demand varies from one country to another. In order to urge the consumers to buy products, the companies tend to be more competitive by propelling innovative and consumer oriented procedures.

- **Labor market efficiency:** companies should make sure that their workers are distributed to the most profitable use and motivate them in order to give the best of their efforts. The labor markets must be flexible when shifting workforce from one position to another in the lowest possible cost and also ensure an equal business environment for both men and women.

- **Financial market sophistication:** financial markets nowadays are more significant than any other time in any country’s economy because of the present financial crisis. The resources saved by the citizens and the foreign investors must be distributed by the financial sector to their most functional and effective way. Sophisticated financial markets should be able to provide the private sector with capital coming from banks, securities exchanges and other means and is also able to turn innovative ideas into products or services. In order to fulfill these requirements, financial markets should rely on a credible and transparent banking sector.

- **Technological readiness:** is the ability of an economy to adopt rapidly the modern and advanced technologies in order to reinforce the production of the industries. Information and Communication Technologies (ICT) particularly, constitute the general purpose technology and are significant when it comes to trade and transactions.

- **Market size:** the productivity of a business is affected by the market size, as the businesses are able to exploit scale economies. Because of the globalization, international markets are important for the domestic markets of small countries. According to evidence the openness of the trade activity is positively related to economic growth, especially for the above countries. This pillar includes foreign as well as domestic markets because in this way credit is given to export-dependent economies that have a common market but are separated into many countries, as in the case of European Union for instance.

- **Business sophistication:** affects in a positive way the efficiency of the goods and services available in an economy, which in turn increases the productivity and reinforces the competitiveness. Business sophistication includes the quality of the business networks as well as the quality of the strategies and the functioning of the firms available in a country.

- **Innovation:** the improvement of the institutions and infrastructures, or the labor efficiency are factors which can benefit the economy only in short run and give
substantial profits. In the long term, economic wealth can only be achieved with the technological innovation, as thanks to her, the technological knowledge is expanding and economies tend to disincline the use of foreign ones. The firms in more advanced countries can be competitive by producing groundbreaking products and processes. In order to achieve that, the countries should finance the sector of research and found scientific institutions of high-quality (World Economic Forum, 2008-09: 3-6).
The EDB Index

The *Ease of Doing Business Index* measures the regulations of the businesses and specifically of the local firms, and notices the changes that have take place since 2003. The data provided by the EDB Index constitute a base for researchers and policy makers to understand which measures are effective, or which aren’t, and why (World Bank Group, 2011: 9-10) The Index includes 183 economies. It should be mentioned that the rankings of each pillar are the percentile rankings of average of its component indicators (World Bank, 2011: 112).

The Index provides data for 183 economies, including small ones, for which there are no measurements available in other indexes. It is structured in 9 pillars, which are the below:

- *Starting a business:* contains the recording of the procedures required from a businessman in order to operate and start up a business, whether it is industrial or commercial. This contains the necessary permits and licenses and also the completion of any required inscription, notification or verification for the workers and the company (World Bank, 2010: 113).

- *Dealing with construction permits:* includes the procedures required for the businesses belonging in the construction sector in order to construct a modular warehouse, including the submission of the relevant project documents (such as site maps or building plans) to the authorities. It also includes the certificates, licenses, permits and clearances, the completion of all the notifications and the reception of the requisite inspections. The pillar also records the procedures needed for obtaining electricity and water supplies, fixed landline and sewage. Procedures used in order to register a property and transfer it or consider it as collateral, are also measured in this pillar (World Bank, 2010: 115).

- *Registering property:* records the procedures needed in the case that a company (buyer) purchases property from another one (seller) and transfers the titles of the property to the first’s name. The procedure requires documents and it is completed when the company that has purchased the property is able to resell it or use it in its transactions with a bank (for example for a loan) as collateral (World Bank, 2011: 117).

- *Getting Credit:* measures the rights of the lenders and the borrowers through secure transactions and through the exchange of credit information. It also measures the way that the bank sector facilitates lending through bankruptcy and collateral laws and the
size of the access to credit information which is available in private credit agencies or public credit registries (World Bank, 2011: 118).

- **Protecting Investors:** measures the efficiency of the protection measures that minor shareholders receive in case of misuse of the company’s property by the director. There are three ways to protect investors: the first is to keep transparent the transactions with the related parties, the second is to ensure the self-dealing liability and the third one is the ability of the shareholders to sue the director for any misbehavior (World Bank, 2011: 120).

- **Paying taxes:** includes the taxes and the compulsory contributions that companies as well as their administrations have to pay every year. Those contributions include corporate income taxes, property taxes, taxes that the employer pays for labor, social contributions, property transfer taxes, capital gains taxes, dividend taxes, road and vehicle taxes and any other taxes (World Bank, 2011: 122).

- **Trading across borders:** is the required procedures for importing and exporting goods by ocean transportation. In this pillar, every importing and exporting procedure is recorded as well as the cost and the time required for the completion of the procedure. The cost and the time for the transportation through ocean are not included. The cost of the documents needed for issuance as well as advising of credit letters, are included (World Bank, 2011: 125).

- **Enforcing contracts:** calculates the judicial system’s efficiency when there is a commercial dispute which needs to be solved. The pillar measures the steps of the process of the commercial dispute before the court takes action\(^1\) (World Bank, 2011: 126).

- **Closing a business:** records the cost, the outcome and the time of the insolvency proceedings that involve domestic entities (World Bank, 2011: 127)\(^2\).

---


\(^2\) As World Bank mentions, two pilot indicator sets (the *Getting electricity* and the *Employing workers* indicators), are not included this year, as the methodology for them is being refined (World Bank, 2011: 129).
Ukraine at a glance

Official Name: Ukraine.

Capital (and largest city): Kiev.

Land

- Area: 233,090 square miles (603,628 sq km).
- Mountains: Carpathian Mountains, Crimean Mountains.
- Major Rivers: Dniester, Dnieper, Donets.

People

- Official Language: Ukrainian.

Government

- Form: republic.
- Head of the State: President.

Products

- Manufactured Products: chemicals, clothing, iron, steel, military equipment, food products.
- Agricultural Products: wheat, barley, sugar beets, sunflower seeds, vegetables, beef, milk.
- Mining products: coal, iron ore, manganese, natural gas, salt.

Economy

- Currency: Hryvnia (1hryvnia=100 kopiykas).
- Fiscal year: calendar year.
- Trade organizations: CIS, GUAM and WTO.
- Annual growth rate (2010 est.): 4.2%.
- Per Capita GDP (2010 estimate): $6,656 (calculated in units).

3 See the chapter Abbreviations-Acronyms, p.2.
• Per Capita Nominal GDP (2010 estimate): $3,003 (calculated in units)\(^4\).
• GDP real annual growth rate in % (2010 est.): 4.2\(^5\).

GDP composition per sector:
• Agriculture: 15.8%.
• Industry: 18.5%.
• Services: 67.5%.

Maastricht Criteria
• Nominal Inflation rate (2011 est.): 11.9\(^6\).
• Nominal long-term interest rate: 7.75%.
• Public debt as % of GDP (2010 est.): -40.1\(^7\).
• Public deficit as % of GDP (2011 est.): +3\(^8\).
• Exchange currency: 1 Hryvnia= €0.09= $0.12.

Employment
• Labor force (2010 est.): 22.02 million\(^9\).
• Unemployment rate (2010 est.): 8.1\(^{10} \).

\(^4\)The figures are estimations of the International Monetary Fund for the year 2010 (last estimation). For more detailed information, visit http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/weorept.aspx?sy=2007&ey=2010&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=85&pr1.y=19&c=926&s=NGDPD%2CNGDPDPC%2CPPGDP%2CPPPPC%2CLP&grp=0&a=
\(^5\)The data are derived from CIA\(^\text{®} \) web page, for more economic data, visit https://www.cia.gov/library/publications/the-world-factbook/geos/up.html.
\(^6\)According to the last estimation of inflation rate, reported in June, 2011 (visit http://www.tradingeconomics.com/ukraine/inflation-cpi).
\(^7\)http://www.blackseagrain.net/agonews/ukraine--finance-ministry-state-budget-deficit-in-2011--expected-at-3-of-gdp
Additional Information

Ukraine is the Europe’s second largest country\(^{11}\). It is located at the east of Poland and at the north of the Black Sea. It is bordered by Romania, Poland, Byelorussia and Russia. Its land is basically consisted of steppes. In 1923 it became part of the Union of Soviet Socialist Republics (Oparenko, 1988: 7).

Ukrainians have been through a troubled history, as for many years other countries have put it under control, including Russia and the Soviet Union. All these countries have forced Ukraine to adopt their culture. Today the country is independent and its people, despite the past difficulties, hold on to their tradition and look to their countries future (Cleaf, 2007: 4).

During the Soviet era, Ukraine was a very important, as far as the economy is concerned. Soviet republic, as it provided more than 25% of the Soviet agricultural production and its heavy industry provided raw materials and equipment for the industries and the mines of the other USSR countries. The independence of Ukraine, in 1991, brought increased privatization to the economy, though the progress was moving slowly, as government’s resistance to economic reform was still strong. This resistance was followed by recession and the domestic output declined dramatically. Despite this, Ukraine’s economy started to recover with slow steps, as structural reforms by the government’s side, attracted the foreign investment (Oxford Business Group, 2007: 8).

The Orange Revolution

One of Ukraine’s most epic moments was the Orange Revolution which took place in 2004. It lasted one month\(^{12}\) during which Ukraine was dominating the world news. After the second round of Ukraine’s presidential elections on November 21, 2004, it became clear that the incumbent regime of Leonid Kuchma, who was the President, had rigged the elections in order to promote the Prime Ministe Victor Yanukovych, who was his candidate (Aslund, 2006: 1).

Yanukovych’s opposite, Victor Yushchenko, who was a former Prime Minister, urged Ukrainian citizens to gather at Kyiv’s Independence Square called “Maidan”, declaring that Yanukovych had stolen the victory from him. In November 22, thousands of Ukrainians gathered at Maidan and their number was continuously increasing until they reached approximately one million. Each candidate declared himself President, which is an ordinary

\(^{11}\) After Russia (Cleaf, 2007, 4).

\(^{12}\) From November 22 until December 26 (Aslund, 2009: 175).
situation of dual sovereignty. This heralded the beginning of the so-called Orange evolution (Aslund, 2006: 1).

The popular protests took place in various big cities throughout Ukraine, but they were mainly concentrated in Maiden, were Yushchenko and other leaders were speaking form the square’s stage. Some of the protestors suggested the seizure of government buildings but Yushchenko rejected any action that could provoke violence. Eventually the protestors seized the main government buildings in order to ensure that the Government wouldn’t outlast the protest. After negotiation processes between the Government and the opposition, and with the assistance of foreign presidents\(^\text{13}\) and after an array of courts, a rerun of the presidential elections was arranged to take place on December 26 (Aslund, 2006: 1).

The third round of the elections was held with the assistance of foreign observers and Yushchenko defeated Yanukovych with a 52% against 44% of the votes. Though Yanukovych contested the results of the elections, the Supreme Council on January 23, 2005 certified the results and Yushchenko inaugurated Ukraine’s President. Uushchenko’s inauguration marked the Revolution’s end (Aslund, 2006: 1).

Ukraine in NATO

The NATO issue has become quite problematic, as Russia is really concerned about the possibility that Ukraine might join the Organization. The President\(^\text{14}\) though, has provided assurances to the Russians, that they will not point missiles at them or do anything like that, in case that the constitutional barrier with NATO will be overcome and Ukraine join NATO (Oxford Business Group, 2008: 20).

The EU membership

The two dominant powers that define the geopolitical horizon of Ukraine, is Russia to the east and north and EU to the west. As a result, the Ukrainian foreign policy is complicated because two views of its identity that are mutually exclusive exist. The first view wants Ukraine to be a central European country, such as Slovakia or Hungary and its supported by Ukraine’s never-Russified west, while the other point of view wants the

\(^\text{13}\) Such as the Lithuanian President Valdas Adamkus, the Polish President Alexander Kwasniewski, the EU’s High Representative Javier Solana and others and the Russian State Duma Speaker Boris Gryzlov (Aslund, 1).

\(^\text{14}\) Throughout the essay, wherever words like President, Government, Parliament, ect are written with capital initials, mean the Ukrainian President, Government, ect.
country to be Russia’s satellite and it is dominant in the Russian-speaking east side of the country (Oxford Business Group, 2008: 14).

President Victor Yushchenko has politically supported the European identity of Ukraine, while Victor Yanukovych is an important proponent of the Little Russia. However, the overwhelming success of the Orange Revolution forced Yanukovych to tack towards the European perspective (oxford Business Group, 2008: 14).

In 2005, Ukraine signed the EU’s Action Plan, which layed out a number of reforms without any promise though, that these reforms would lead Ukraine to a future membership. European countries in their majority, want to keep the county at arm’s length. Despite the disputes, Ukraine received in 2007 a €144 million aid from the EU as part of the EU’s Neighborhood Policy and signed with EU a visa facilitation agreement that facilitates Ukrainians to travel to EU. Finally, there are ongoing talks about common aviation and free trade area agreements, such as the New Enhanced Agreement (Oxford Business Group, 2008: 14).

Oxford Business Group, in relation to Ukraine’s potential membership in the EU, states: “As EU membership is contingent upon significant reforms to Ukraine’s political and judicial systems, Prime Minister Timoshenko is planning to align the country more with European standards and gradually loosen Russia’s strong influence on its domestic policies” (Oxford Business Group, 2008: 14).

Ukraine as World Trade Organization (WTO) member

On May 16, 2008, Ukraine became officially a WTO member. Ukraine had first applied to join the prestigious trade club in 1993, along with Russia. The first independent Ukrainian presidents, Leonid Kuchma and Leonid Kravchuk, had verbally stated their intention to support the accession of Ukraine to the WTO. However, they had adopted an old-school approach in their effort to force through the structural and economic reforms that would be necessary for this membership and almost nothing came of it (Oxford Business Group, 2008: 8).

Besides Ukraine, during the period of their terms in office, was still a post-Soviet case in the “Wild East” variety. Its economy was chaotic and underperforming even by the region standards. Only when Yushchenko became the country’s president, after the Orange

---

15 The only exception are the former Eastern-Bloc members, Czech Republic and Poland, that want to see Ukraine as an EU member (Oxford Business Group, 2008: 14).
revolution, the political class of Ukraine started to think seriously the possibility of joining a

group which was the pillar of the liberal economic order of the West (Oxford Business

Group, 2008: 8).

It was Yushchenko and his Orange regime that made Ukraine to get into the WTO, that was the cornerstone of the Government’s Western-looking agenda and they promised that Ukraine would become a WTO member before the 2005 end. Though it turned out to be a little more difficult than expected, as the Government faced intense opposition by specific influential sectors of Ukraine’s and Russia’s elite, things went to the path that Yushenko and his regime had strived for (Oxford Business Group, 2008: 8).

The WTO membership would benefit the Ukrainian consumers, as the foreign penetration would likely bring increased competition and would also impose some order in the domestic regulatory and political environment of the country. Ukraine was now required to clean itself up. Finally, Ukraine with this membership would start negotiating with the EU for a free trade agreement, which was much-anticipated. Also, after according its institutions and legislation very close to the standards of the EU, it might find itself in a stronger position in relation to the EU membership (Oxford Business Group, 2008: 8-9).

Ukraine as part of the transition economies

The transformation of a centrally planned economy into a market one, is the element that characterizes the transition economies. Central and Eastern European economies, as well as the Baltics and economies from the Commonwealth of independent states (CIS), including Ukraine, are transition economies. Below are the characteristics of a transition economy, given in order to understand the phase in which Ukrainian economy is (International Monetary Fund, 2000).

The main elements that constitute a transition economy are

- The *liberalization*, which is the possibility of the markets to determine on the prices of an economy and withdraw trade barriers which have cut off the price structures of the other economies all around the world.
- The *macroeconomic stabilization*, which is the process that stabilizes or even lowers the inflation after an inflation rise that follows the liberalization of an economy. In order to achieve that, the government must show discipline over its budget, which means discipline in the monetary and fiscal policy.
• **Restructuring and privatization:** is the process of reforming the companies in order to make them able to produce things that will be sold in markets and also transfer their ownership to private hands.

• **Legal and institutional reforms:** are necessary as they redefine the state’s role, they establish the law and allow the competition policies (International Monetary Fund, 2000)\(^\text{16}\).

Competitiveness in Ukraine

Ukraine first entered the competitiveness rankings of the World Economic Forum in 1997. Since then, the ranking methods have undergone significant changes, such as the development and the introduction of new indexes and the addition of many countries. These actors made the GCI ranking the most comprehensive evaluation of this kind worldwide. On the other hand, the same actors extremely limited the comparability of the rankings over time. Though sample size could be accounted for by presenting the results that are based on the 1997 country group, the methodological changes must be taken into account when interpreting the data (World Economic Forum, 2008: 44).

Overall GCI

In the year 2004-2005, Ukraine is only a few steps above the worst performer, which is Georgia. In specific, it holds a 3.27 score which depicts the 86th position, while Georgia is 8 positions below Ukraine (see Table 2). The best performer in the BS-10 region for the same year is Greece, holding the 37th position, while the second best performer, in order of rank, is Bulgaria, rated 59th, fairly below Greece. The EU-27, includes the best performer worldwide for the fiscal year 2004-2005, which is Finland, followed by Sweden, ranked 3rd (see Table 1). The worst EU performer is Romania, which is one of the newcomers in the Union (along with Bulgaria)17. Right after Romania comes Bulgaria, in terms of worst performance, which is ranked 59th. The EU-27’s average score is 4.83, while the corresponding BS-10’s score is 4.07, fairly below EU.

However, despite what someone would conclude, Ukraine’s economy had already started to thrive in 2004. Its GCI rank may seem considerably low, but Ukraine after its independence had a really problematic economy, which started to recover with quite slow steps, after the 2000s’. Bearing in mind these, and the fact that as a transition economy it was striving to become efficiency driven, the rank is just mediocre. In 2003-2004 for instance, Ukraine was ranked 84th. In 2003 Competitiveness Report, the number of countries that were under accession was 102, while in 2004-2005 only two countries were added, increasing the number in 104. This means that Ukraine’s 2004 score was approximately at the same level with that of 2003.

17 Bulgaria and Romania joined the EU in 2007, altering it in EU-27. It was the second (and double) membership of countries belonging in the BS-10 group, after Greece.
In 2004, there was a sense that a new era for Ukraine was beginning. As Aslund says, “ [...] the elite was not worried, but joyful. They seemed caught in hubris, thinking that they could get away with nothing. The oligarchs made money as never before, and the economy developed at an extraordinary speed. Ukraine’s growth hit 12 per cent in 2004, the highest in the country’s modern history” (Aslund, 2009: 164).

One of the main reasons for this economic bloom was the rise of the international steel prices. Steel constitutes a 40% of exports in Ukraine. In 2004 the Ukrainian exports reached the 41%, as the value surged. The imports reached these levels and Ukraine had a large current account surplus that reached the 7% of GDP, though suffered from the increasing prices of the imported oil (Aslund, 2009: 164).

The gross fixed investment was about 20% of GDP, which was considered normal according to the European levels, and in 2007 reached a respectable 27% of GDP (Aslund, 2009: 164).

In 2004 furthermore, ten countries18, among which Ukraine is included, initiated the creation and the enforcement of collateral agreements easier. The reforms in Ukraine, Serbia and Montenegro, Bosnia and Herzegovina covered all dimensions of the law for secure transactions, which were registration, priority, creation and collateral enforcement (World Bank, 2006: 34).

The Ukrainian workers for a long time had been suffered from low wages, wage arrears and unemployment. Unemployment was never really high, though there are not available survey measures before 1998. In 2000 the unemployment rate was 11.6%, while in 2005 it reached a reasonable 7.2%. The real wages of Ukrainian workers started a remarkable recovery which varied from 15-20%, reaching the impressive 25% in 2004. Aslund claims that Ukraine’s economic development was at its best in 2004, more than any other year (Aslund, 2009: 164).

The privatization which most attracted public’s attention was that of Krivoryzhstal steelworks. On June 14, 2004, Akhmetov and Pinchuk, who were the two wealthiest Ukrainians, purchased Krivoryzhstal together. As Aslund mentions, this was a controversial privatization for Ukraine. Krivoryzhstal used to be the most modern and largest steelworks of Ukraine and also the only state-owned mill left (Aslund, 2009: 163).

---

18 The ten countries were Ukraine, Finland, India, Croatia, Brazil, Japan, Bosnia and Herzegovina, Sweden, Montenegro, Serbia and Romania (World Bank, 2006: 34).
Finally, Krivoryzhstal was sold for $800 million, in cash, which was the highest price ever paid for an Ukrainian company. The amount of money aid for it, was, according to Pinchuk, twice the money that would be needed for the privatization of all the other Ukrainian steelworks together. However, the two buyers insisted that the fact that steelwork remained Ukrainian was significant for the future of the country, as it was the core of Ukraine’s steel industry. Aslund comments that without Krivoryzhstal, Ukraine’s steel industry would be dismembered in front of other global giant steel industries, such as Mittal, Arcelor and Russian steel corporations (Aslund, 2009: 163).

However, Krivoryzhstal was resold on October 24 of the same year, in a televised auction, where the biggest steel industries in the world, Mittal Steel and Arcelor where the main bidders. Finally, Mittal Steel won with a $4.8 billion bid, which was six times higher than the money given by Pinchuk and Akhmetov in June, as steel prices had increased considerably in the interim. The sale was considered successful, as it motivated the immediate transition to the European prices which were higher about four to five times (Aslund, 2009: 210-211).

The purchase of Krivoryzhstal, attracted much capital which was invested to the steel industry. This made the steel industry the sector which attracted more investments and capital than any other sector of the Ukrainian economy. The banking sector should also not be underestimated, as it has attracted since 2006 the most significant investments. In Ukraine the banking capital which is owned by foreign investors exceeds the one fifth. Finally, there are investments in the automotive industry, as mentioned above, in retailing and consumer goods (Crane, 2007: 18).

However, in 2004, Yanukovych let the fiscal deficit boost, something which created an enormous fiscal stimulus that increased GDP. Though economic development was significant in 2004, it is considered that an essential part of it has taken place in 2005 (Aslund, 2009: 168).

The next year (2005-2006) there are no considerable changes, as Ukraine is only improved by two positions, making it the second worst performer of the region after Georgia which comes first in bad performance (see Table 2). Keeping in mind that in this year’s report 13 more economies were added, the phainomenally slight improvement of Ukraine becomes of higher importance. From this year and onwards Ukraine started to improve considerably, as referred in the previous paragraph. The Best BS-10 performer for
the same year comes Greece ranked 36th, which makes it a strong competitor for the BS-10 region, at least at that years. The second best performer is Bulgaria ranked 58th.

The EU region for one more time includes the best performer in competitiveness in a world scale, which is Finland that is ranked for second year 1st, with Sweden following it and scoring a 3rd position (see Table 1). The worst performer of the region is Romania again, holding the 67th position, while Bulgaria comes second in the worst performing. It is noticeable though, that despite their worst performances in the EU region, they are good performers for the BS region. This indicates the significant divergence between the EU-27 and the BS-10 standards.

In the fiscal year 2006-2007, Ukraine obviously holds a higher position in competitiveness, compared to the previous years, improving itself by 6 positions. From this year and onwards, Ukraine steadily improves its position (see Table 1). In 2006-2007 Competitiveness Report, there is also an increased number as far as the participating economies are concerned. The participants of this year were 131, which means that 14 economies were added and this makes Ukraine’s rank even higher virtually.

The BS-10 region’s worst performer for 2006-2007 is Moldova ranked 86th. Georgia comes second worst performer with an 85 rank (see Table 1). The best performer of the region is Greece possessing the 47th position. Turkey comes second in good performance, ranked 59th. The distance between the two best performers is significant though.

The EU-27’s best performer for the same fiscal year is Finland again, although it is degraded, but only by one position and comes 2nd instead of 1st. After Finland comes Sweden with an also very good rank of 3 (see Table 1). The worst EU performer is Bulgaria, ranked 72th and Romania supplements the worst performances with a 68 rank position.

Ukraine has a growing high demand for automobiles and consumer goods. In 2006 for instance, the sixth largest market in Europe for new cars, was Ukraine (Bugajski, 2008: 6).

The rapidly growing economy of the recent years is also enhanced by a dynamic emerging domestic market that has a relatively wide consumer base. Ukraine ranks 28th worldwide in terms of GDP in PPP. After 2005, when the price of the steel related deep, the Ukrainian economy appeared to be back on track, reaching growth rates of 7% in 2006 and 2007 (see Table ). This dynamic is reflected in the stock market as well, that grew by a 10 factor between 2000 and 2006. The living conditions in the meantime, started to converge
with its western neighbors, as salaries in Ukraine increased by 30% per year, though started from a low base (World Economic Forum, 2008: 42).

According to Crane, the embargos imposed in 2006 and 2007 in grain exports have undermined more than anything else, the reputation of Ukraine as responsible trade partner. Ukrainian commercial interests which were connected to the Ukrainian government hoped to acquire export quotas which would later resell to legitimate grain exporters, and gain significant profits through the process. Because of this policy, legitimate grain exporters lost more than $200 million. Furthermore, this had depressing and lasting effects on the Ukrainian farmers’ incomes, as the international grain trading companies would avoid transactions with the Ukrainian market, as the risk for embargoes and quotas were high (Crane, 2007: xi).

Nonetheless, Ukrainian exports have rapidly risen, as new markets are found by the Ukrainian exporters. The largest export market for Ukraine is now EU, which displaced the Russian market in 1998. Since 2002 though, the Ukrainian exports to Asia, especially in China, have surpassed those in EU. Inside EU, Italy and Germany, which are among its largest economies, are included in the three top export markets for Ukraine. Additionally, Ukraine’s former Soviet neighbors, which are now EU’s members, are now ranked among the ten top Ukraine’s export markets in EU. These are Poland, Romania, Hungary, Slovakia and Bulgaria. Exports in Russia, China and Belarus also loom large and are outside EU (Crane, 2007: 14).

Ukrainian imports are more concentrated by region, as opposed to its exports. Over 75% of Ukrainian imports come from EU mainly and also from other CIS countries. In 2006, Russia was supplanted by EU, as Ukraine’s main import source (Crane, 2007: 14-15).

Despite the slow rise of 2003 inflows of Foreign Direct Investment (FDI), Ukraine’s accumulative FDI in 2006 was modest, as it reached $21.2 billion. The figure is low, compared with the corresponding revenues of FDI of Hungarian economy ($88billion), which is a comparable in size economy. In 2006, Ukraine’s accumulative FDI per capita reached $456, while Hungary’s corresponding figure was $8,700 and Russia’s $1,293 (Crane, 2007: 17). Tables 1 and 2 give a clearest picture of the better performances of Russia (scored 4.08 in the year 2006-2007) and Hungary (scored 4.52) as opposed to the Ukrainian economy which scored 3.89.

The largest single investor in Ukraine is Germany, which in 2005 more than doubled its investment in the first country. In that year, the Mittal Group, through its German
subsidiary, purchased Krivoryzhstal, which is the largest steel complex of Ukraine. The second largest single investor for Ukraine is Cyprus. What is interesting, is that the Cyprius investment comes from Ukrainian and Russian investments. It is easier for the Russian investors to invest money in Cyprus, rather than investing directly from their own country. Accordingly, wealthy Ukrainians, like Russians, park their money in Cyprus and then repatriate their capital in order to purchase attractive property in Ukraine when it becomes available. Cyprus, Russia and the British Virgin Islands, which also receive capital from Ukrainian and Russian investors who want to invest later in Ukraine, hold a 23% of total Ukraine FDI. The United Kingdom, the United States, the Netherlands and Austria have also invest sizable amounts of money in Ukraine (Crane, 2007: 17-18).

The privatization, which was part of the county’s conversion to a market oriented economy, proceeded slowly. Most privatizations were not open and only the wealthy Ukrainian businessmen with government connections were benefited. Russian businessmen also, though disadvantaged, had some valid linkages with the Ukrainian government, whereas Western businessmen were totally lost (Aslund, 163).

The state enterprises were under recession. Though they could eliminate the costs and they could be reorganized, they could hardly expand or develop new production. The collaboration of Ukrainian businessmen with Soviet behemoths, who had previously been neglected, was one of the effects of privatization. This made the wealthy Ukrainian capitalists stronger and more productive (Aslund, 163).

In 2007-2008 Ukraine steadily keeps on improving its competitiveness, possessing a 73 rank (5 positions higher than the previous year) among the same number of economies (see Table 2). The difference and the improvement though, is obvious. The worst performer of the BS group is Moldova again, possessing a much worse rank than the previous year. It is ranked at the 97th position, which is 11 classes lower than its previous accession. After Moldova comes Armenia with a 93 rank, while the best BS-10 performer is Turkey with a 53 rank, while Russia is a little less competitive with a 58 rank possession.

Denmark is EU’s best performer for this year, being 3rd in competitiveness worldwide followed by Sweden at the 4th position (see Table 1). The Union’s worst performer is Bulgaria once again, ranked 79th and Romania which is better only by 5 classes, follows.

Ukraine also expands its production of oil and natural gas. This is a potential for the Ukrainian economy. In October 2007, the Ukrainian government signed an offshore
production-sharing agreement with the American company called Vanko Energy. This action was a great achievement for Ukraine’s first offshore energy exportation and development tender. The culmination of the energy exportation came with the Shell Oil Company’s agreement, which was encouraged by Vanko’s success. Shell invested $100 million to take part to the development and exploitation activities. Furthermore, once the political barriers would be overcomed, the company would commit itself in larger scale, as far as the exploitation and the investments are concerned (Bugajski, 2008: 7).

Ukraine keeps improving its performance in the global ranking in 2008-2009 with slow steps, but steadily. It has improved slightly, by one position among 134 economies this year (see Table 2). The best performer in the group of the 10 Black Sea countries is Russia ranked 51st, while Turkey complements the good performances with a 63 ranking. The worst performers of the group are Armenia, ranked 97th and Moldova that follows with a 95 rank.

Once again Denmark is the best performer of the EU-27, ranked 3rd and Sweden is slightly less competitive possessing the 4th rank (see Table 1). The less competitive economy of all is Bulgaria with a 76 rank position and Romania which comes 68. Greece is also a bad performer, differentiated only by 1 class from Romania.

The energy sector is one of the most crucial sectors of the Ukrainian economy. Despite the widespreaded corruption, the country has had some significant achievements in this part. Since 1991, most of Ukraine’s power companies, oil-refining systems and electric power generation have been privatized successfully. In addition, the chemical and steel industries, which contribute a lot to the Gross Domestic Product (GDP), and to the export earnings, have also achieved considerable increases in energy efficiency. Hence, Ukraine was more energy efficient by 20% in 2008, than it was in the year 1990. The recent increases in the prices of the natural gas19, which is imported from Central Asia and Russia, have motivate big industries which wish to invest in new technologies, that will reinforce the energy efficiency (Bugajski, 2008: 6-7).

The improvement in competitiveness though, stops for Ukraine in the year 2009-2010. From then on, there’s again a stable fall in Ukraine’s ranks (see Table 2). In this year, Ukraine makes a considerable downward plunge of 10 positions, ranked 82nd (see Table 2). The worst performer by far is Armenia ranked 97th and Georgia comes second with a 90

---

19 In 2005 for instance, Ukraine paid for the gas $50 per thousand cubic meters, while the prices rised to $95, $130, and $180 per thousand cubic meters in 2006, 2007 and 2008 correspondingly (Bugajski, 2008: 7).
rank. The best rank in BS-10 for this year is Azerbaijan ranked 51. Russia comes second with a considerable divergence of 10 positions though.

The best ranking in EU-27 is the 4th position, achieved by Sweden, and Denmark comes right after Sweden, with a 5 rank (see Table 1). The worst position is the 76th one, achieved by Bulgaria and Greece comes second in worst performances with a 71 rank. Obviously Greece’s enormous public depth and the current global financial crisis have seriously deteriorated its competitiveness.

In economy, as in many other sectors, things can unexpectedly change and take a different turn. Such a turn was the financial global crisis that started in 2008, while in 2009 made its presence more than obvious. Ukraine, as a country trying to transit its economy and deal with international giant markets, such as EU and Russia, could not be untouched. The years 2008-2009, brought many important changes and challenges for Ukraine, many of them related to the global crisis in finance sector.

In July 2009, the World Bank downgraded Ukraine on its economic forecast and predicted that Ukrainian economy would contract by 15% at that year. The economic downturn hit the metals’ price in a worldwide scale, and Ukraine depends heavily on this sector when it comes to exports. However, it predicted a gradual recovery that would start in 2010, something that is about to be seen as the essay proceeds. Ruslan Piontkivski, the head economist of the World Bank, and responsible for the Ukrainian issues, stated that, “The situation has deteriorated the most seriously in the public finances”. The incomes in Ukraine decreased as the GDP fell. Without high incomes, the expenses won’t be revised. All the above increase the budget deficit risks. As Ukraine is highly depended on the small number of its heavy industries, including metal production, it becomes more vulnerable when there is decline of the foreign demand (www.bbc.co.uk)21.

In the 2010-2011 Competitiveness Report, Ukraine’s position is deteriorated by 7 positions, reaching the 89 rank. The worst rank is that of Armenia which comes 98th and right after comes Moldova at the 94th position. On the opposite side is Azerbaijan with the best 57 rank and then Turkey with 61.

The best performer in EU-27 is Sweden which comes second in the world and Germany has also a very good rank which place it 5th worldwide. The less competitive

20 To see the whole article, visit http://news.bbc.co.uk/2/hi/business/8154321.stm.
21 To see the whole article, visit http://news.bbc.co.uk/2/hi/business/8154321.stm.
The economy is Greece which is ranked 83rd and Bulgaria follows with a 71 rank. The deterioration that Greece is subjected to is more than obvious in this year, as it’s not only the worst EU performer, but it is also above economies that were always below it.

In 2011-2012 Ukraine improved its competitiveness, as it is higher by 7 ranks, but still with a bad performance (see Table 2). The most competitive BS-10 country is Azerbaijan which is 55th and Turkey that comes 59th is the second best performer. The less potent competitor is Moldova which is ranked 93rd and Armenia, ranked 92nd.

At the same year, Greece comes 90th in world scale, which makes it the worst EU performer (see Table 1). It is definitely a very bad performance for Greece, which lower with great divergence from the second worst performer, Romania, which is ranked 77th. Once again Sweden is EU’s most competitive economy, ranked 3rd and Finland which is lower only by one position.

Basic Requirements

The most recent Competitiveness Report (2011-2012), shows that in the basic requirements subindex, Ukraine has a rather bad performance. In the overall subindex it is ranked 98th among 142 economies, which makes it the second worst performer after Moldova ranked 102nd (see Table 4). The best performer of the subpillar is Azerbaijan with a mediocre 59 rank and Russia ranked 63rd.

European Union’s best performer is Sweden ranked 4th and Finland which is one class bellow Sweden (see Table 3). The worst performer of the Union is Romania ranked 89th and Greece ranked 80th.

Institutions

The Ukrainian institutions are another challenge for the country as they are ranked with 131 which makes it the worst performer of the whole region. Russia also comes right after Ukraine with a 128 rank, while the best performance is made by Georgia, ranked 60th and Azerbaijan, ranked 68th.

The best performer of the EU-27 in this pillar is Sweden which is ranked 2nd globally and Finland which is slightly worse by one position (see Table 3). The worst performance is that of Bulgaria ranked 110th and Slovak Republic which comes 101st.
The public and private institutions are the weak spot in Ukrainian competitiveness. In this sector, Ukraine performs bad compared to all the comparator countries, except Russia (see Table). Reform in this sector should be a priority for the Ukrainian Government. The reform is also crucial because an institutional framework that functions well is very important at the current stage of development that Ukraine is (World Economic Forum, 2008: 11).

Ukraine’s public institutions are inefficient and opaque. They are afflicted by favoritism and corruption because there is lack of an efficient legal framework and the property rights which affect the businesses’ operations are weakly defined. Furthermore, the weak security situation in Ukraine as well as the unreliable security services, increase the costs of the businesses. The last is also a disadvantage in doing business issues. Another competitive weakness is that the private institutions of the country are underdeveloped and there are weak corporate governance standards. All the above undermine the confidence of the possible investors and the stock market development (World Economic Forum, 2008: 11).

Infrastructure

In the infrastructures pillar, Ukraine is ranked with a mediocre 71st (see Table 4). The worst performer though, is Moldova ranked 96th and Romania which is only one class above Moldova. Greece possesses the best rank which is 45 and Turkey comes right after Greece with a 51 rank position.

The best performer of the EU-27 in infrastructures is Germany which comes 2nd and France which comes 4th (see Table 3). The worst performers though, are Romania ranked 95th and Bulgaria ranked 87th.

Infrastructure, and especially energy, telecommunications and transport infrastructure, needs to be upgraded. This is reflected by the measurements which place Ukraine to low positions (see Table 4). Though the railroads’ quality is not far behind the EU standards, roads and air transportation infrastructure are not at the same level with the international standards. This undermines the country’s favorable geographical location and invalidates its potential to be fully utilized as a transit corridor (World Economic Forum, 2008: 11).

Ukraine has sufficiently developed Radio and Television broadcasting systems. The mobile telephone services’ penetration in 2009, was 120%. In 2008, the subscriber base
concerning fixed line telephone services was $12.1 million. Ukrtelecom which is the state-owned telecommunication company, possesses the dominant market positions. In 2008 the number of internet users was estimated at 10.354 million people (Magisters, 2010).

The water supply networks in Ukraine are state-owned on their majority and the water services are provided by regional monopolies. The mains water supplies can be found in cities (Magisters, 2010).

Ukraine is going to host the 2012 Euro match. The preparation for this pan-European statute is already an extremely powerful incentive for the development of infrastructures in whole Ukraine. Borys Kolesnikov, the Vice Prime-Minister and Minister of Infrastructure, during a conference held in 25 October 2011, stated that the result of the Euro-2012 preparations, the condition of the transport infrastructure in Ukraine has considerably improved. He added that by 2015 the Trans Ukrainian high way will have been completed. This project will enable locals and foreigners to cross by the car the distance from the East to the West of Ukraine in 15 hours maximum. The development is significant for the Ukrainian airports as well. For the Euro-2012 in Ukraine four ultra-modern airports will be available, three of which will have the requirements to take long-haul aircrafts (Ministry of Infrastructure Press Service, 2011).

Macroeconomic stability

The worst BS-10 performers, as far as macroeconomy is concerned are Greece and Georgia is above Greece by only 3 classes (see Table 4). Ukraine has also a bad performance in this pillar, as it is ranked 112th. The best performances though, are that of Azerbaijan, which has an impressive for the region’s standards 16 rank and Russia with considerable divergence compared to Azerbaijan, ranked 44th.

The Best EU performer in macroeconomy is Sweden which is ranked 13th, namely only three positions above Azerbaijan and Finland ranked 20th (see Table 3). The ranks, though are very good objectively, taking into account that the participating economies are 142 in this year, are a little decreased for the Union’s standards. The worst performer though, is by far Greece with the very concerning 140th rank and Portugal, with a great discrepancy from Greece, ranked 111th.

22 To read the full publication, visit http://www.kmu.gov.ua/control/en/publish/article?art_id=244647593&cat_id=244314975.
During the past years great improvements have occurred in Ukraine, as far as macroeconomic stability is concerned. The fiscal policy is more stabilized and inflation rates are low. The overall stability has allowed government to reduce its debt. It has also significantly improved Ukraine’s score on the macroeconomic stability pillar, though proved insufficient to improve its ranking over the 82nd position, given that until 2008 there was a worldwide trend of growing macroeconomic stability. A further curb inflation could considerably improve the ranking of the country (World Economic Forum, 2008: 11).

Health and primary education

One the health and primary education pillar, Ukraine holds a mediocre position which ranks it 74th (see Table 4). There is a far worst performance though, made by Azerbaijan which is ranked 105th and Armenia which comes 94th. Greece is a quite good performer in this pillar, as it is ranked with a 37 which is good not only for the BS-10’s standards, but also for the EU-27’s ones, considering that it is assessed among 142 economies. Second best performer comes Romania, with great divergence from the worst performer though, as it is ranked 66th.

In EU, Finland has the best performance, ranked with an excellent 1 and Belgium ranked 2nd (see Table 3). The worst performer of the Union is Bulgaria ranked 70th and then Romania ranked 66th, which are mediocre ranks in a set of 142 economies.

On the health and primary education pillar, Ukraine holds a mediocre position (see Table 4). Though primary education’s quality is quite good, the enrollment rates are very low compared to international standards. In the health sector, the prevalence of HIV/AIDS and the tuberculosis have several costs for businesses and cause problems. Finally, as far as this pillar is concerned, the negative demographic trends of Ukraine may put additional tension for the pension schemes in the future (World Economic Forum, 2008: 12).

Efficiency enhancers

In the overall efficiency enhancers’ subindex, Ukraine possesses the 74th position, but Moldova is the region’s worst performer as it is ranked 103rd (see Table 4). After Moldova, in the context of good performances, comes Armenia with a 91 rank. The best performers of the BS-10 are Turkey ranked 52nd and Russia, ranked 55th.
The best performer of EU in the subindex is United Kingdom ranked 5\textsuperscript{th} and Sweden ranked 7\textsuperscript{th} (see Table 3). The worst performer is Greece with a 65 rank position and Bulgaria with a 59 rank position.

**Higher education and training**

In the higher education and training sector, Ukraine comes second in good performances, rated 51\textsuperscript{st}, while Greece is the best performer of the region, rated 4\textsuperscript{th} (see Table 4). The pillar’s worst performer is Georgia with an 88 rank and Moldova with an 83 rank.

The best performer of the EU-27 in this pillar is Finland for one more time, ranked 1\textsuperscript{st} and Sweden which is ranked 2\textsuperscript{nd} (see Table 3). The worst performers are Bulgaria ranked 70\textsuperscript{th} and Romania, ranked 56\textsuperscript{th}.

Ukraine’s level on higher education and training pillar is relatively high, as it scored the 53\textsuperscript{rd} position in 2011 (see Table ). This is a competitive advantage that Ukraine should build upon. The educational system of the country facilitates the access to schooling. This results high enrollment rates when the country comes to comparison with other countries that are at the same development stage. The high enrollment rates concern secondary schools and especially universities. Though Ukraine’s educational system needs to adopt further in order to meet the standards of a market economy. For instance, though the overall system’s quality is good (especially the math and science education), there’s the need to improve management education. Businesses could be more involved in the on-the-job training processes, which are currently below the desirable levels, compared to the levels of a market economy (World Economic Forum, 2008: 12).

**Goods market efficiency**

On the sixth pillar of the Global Competitiveness, Ukraine underperforms with a 129 rank and Russia is better only by one position (see Table 4). Turkey has a good performance in the group of ten, holding the 47\textsuperscript{th} position and Georgia ranked 74\textsuperscript{th}. It is obvious that there’s great divergence between the two top performers though.

The best performer of the EU is Luxembourg rated 2\textsuperscript{nd} and Sweden rated 7\textsuperscript{th} worldwide (see Table 3). The less competitive economies regarding this pillar are Greece with a 107 rank position Romania with a 96 position.
The goods market efficiency pillar is one of the weakest parts of the Ukrainian competitiveness. Geiger and Hanouz stress that though this is the major problem that most of the transition economies suffer from, Ukraine has particularly low rates in this pillar (see Table/s ). Foreign and domestic competition, that are the most significant drivers of the efficient markets, are weak, as Ukraine’s anti-monopoly policy is inefficient and there’s high concentration in the markets and the taxation scheme is distortionary. The problem is exacerbated by several problems in the entry of new companies in the market, foreign and trade investment. Reforms in this sector should be among Ukraine’s priorities. The bad performance of Ukraine in this area becomes more worrying, as the efficiency in goods market is the key for transition countries (World Economic Forum, 2008: 12).

**Labor market efficiency**

In this pillar, Turkey underperforms with a 133 position and Greece follows with a 126 rank (see Table 4). Compared with the last two economies, as well as with the set of the 142 economies, Ukraine holds a quite good position as it is ranked 61st. The best performer of the region though, is Azerbaijan with a very hopeful 14 and Georgia with a considerably lower 32.

The best performance of the EU-27 is attributed to Denmark ranked 6th and Sweden which is lower by one position (see Table 3). The worst performances of the Union are those of Greece ranked 126th and Italy ranked 123rd.

The labor market in Ukraine functions fairly efficiently. The major strength of the labor market is the effective usage of the available talent. There’s close connection between productivity and pay and also a high female participation in the production process. However, the most dominant problems that still remain when employing management staff, is favoritism, nepotism and brain drain. Despite of some advantages, the labor market is quite rigid with regard to hiring and firing processes and the wage setting procedures (World Economic Forum, 2008: 12).

**Financial market sophistication**

In the financial market sophistication pillar, Ukraine holds a considerably low 116 ranking (see Table 4). The worst performance though, is that of Russia, which is ranked 127th and Ukraine comes second. The best performers are Turkey with a 55 rank and Bulgaria ranked 75th.
In the European group of countries, Luxembourg is the best performing one in financial market sophistication as it is ranked 8th and Malta comes after Finland with the 9th position. The worst performer is Ireland ranked 115th and Greece ranked 110th.

Though risk capital and loans financing are quite easily available in Ukraine, the equity market is underdeveloped mostly because of the insufficient protection of investors as well as the regulation of securities exchanges. The health of the banking sector in the course of the past 10 years, has moved towards EU Accession levels, but still remains considerably below EU 27 (World Economic Forum, 2008: 12).

**Technological readiness**

In the 9th pillar of competitiveness, Ukraine is ranked with 82, though the worst performers are Georgia ranked 100th and Armenia ranked 88th (see Table 4). The best BS-10 performer is Greece achieving a 47 and Bulgaria holding the 50th position.

Assessing the EU-27 countries, Sweden has the best performance as it is ranked 2nd and Denmark comes right after with the 4th position (see Table 3). The worst performances are made by Romania which is 60th and Bulgaria which is 50th.

Ukraine ranks low in technological readiness, as it lacks many development opportunities that new technologies, adopted form abroad, offer. The new technologies are not available in Ukraine in large scale and Ukrainian companies are in many cases unable or unwilling to adopt them in order to upgrade their products and production services. Instead of the technology use, many Ukrainian companies rely on innovation, which is not the most efficient tactic of increasing the effectiveness of business operations, especially when it comes to a country at Ukraine’s development level. There’s the need for a more pertinent approach such as leveraging FDI and licensing schemes so as to benefit from the technology that is available elsewhere. A governmental program targeting at the increase of technology transfer could contribute greatly to enhance country’s competitiveness. In this case, of Information and Communication Technologies (ICT) is very important because it can enhance the productivity in many economic sectors. Data also show that the Internet and personal computers use, is quite low in Ukraine (World Economic Forum, 2008: 12-13).

**Market size**

On the market size pillar, Ukraine holds a quite good 38 and Russia, which is the best performer is ranked 38th (see Table 4). Turkey is the second best performer holding the 17th
rank. The region’s worst performers are Moldova which is ranked 122\textsuperscript{nd} and Armenia ranked 115\textsuperscript{th}.

The best performer of EU is Germany which ranks 5\textsuperscript{th} and United Kingdom that ranks 6\textsuperscript{th} (see Table 3). The worst performances are made by Netherlands that ranks 127\textsuperscript{th} and Cyprus which ranks 103\textsuperscript{rd}.

Ukraine’s good performance in the market size pillar, offers various opportunities for the Ukrainian businesses. The domestic market is large and the purchasing power is rising, allowing businesses to realize of scale economies. Furthermore, the businesses in Ukraine subserve a great number of export markets. Nevertheless, Ukraine has not yet hit the market size level that more export oriented economies, like Malaysia for instance, have achieve (World Economic Forum, 2008:13).

**Innovation and sophistication factors**

On the innovation and sophistication subindex, Ukraine doesn’t do very well, as it ranks 93\textsuperscript{rd}. The worst performers though are Moldova which ranks 127\textsuperscript{th} and Bulgaria that ranks 117\textsuperscript{th} (see Table 4). The best performances are made by Turkey that ranks 58\textsuperscript{th} and Azerbaijan that ranks 67\textsuperscript{th}.

Romania is the worst EU performer, holding the 99\textsuperscript{th} rank and Bulgaria that ranks 96\textsuperscript{th} comes second in worst performances (see Table 3). The best rankings though are achieved by Sweden that comes 3\textsuperscript{rd} and Finland that comes 4\textsuperscript{th}.

**Business sophistication**

The eleventh pillar of competitiveness indicates Moldova as the worst performer of the BS group of countries. Russia ranks 114\textsuperscript{th} which makes it the second worst performer of the region (see Table 4). The best performances are made by Turkey which ranks 58\textsuperscript{th} and Azerbaijan which ranks 73\textsuperscript{rd}.

The best performer of the EU is Sweden which ranks 2\textsuperscript{nd} and Germany comes right after Sweden with a 4\textsuperscript{th} rank (see Table 3). The worst performance is that of Romania which ranks 102\textsuperscript{nd} and Bulgaria which ranks 96\textsuperscript{th}.

The business sophistication is one of the less important pillars at the moment for Ukraine, given its development level. However, an increase of the value added on services and products, a deepening of clusters and an improvement of the sophistication and quality
of management practices, would benefit Ukraine. Management practices are somehow backward in the management area. Businesses also attribute the problem to companies that are reluctant to delegate authority and allocate management positions to relatives and friends (World Economic Forum, 2008: 13).

**Innovation**

On the innovation sector, Ukraine ranks 74th, though the worst competitor is Moldova ranked 128th and Georgia ranked 118th (see Table 4). The best performers are Azerbaijan which ranks 60th and Russia which ranks 71st. Ukraine comes third among the ten countries.

The EU strongest competitor is Sweden which ranks 2nd and Finland which ranks 3rd (see Table 3). The worst performers though, are Slovak Republic which ranks 96th and Romania which ranks 95th.

*Innovation* is a relatively strong competitive sector for Ukraine. Though innovation may not be a crucial area for a country that has Ukraine’s development level, the country’s innovative capacity should not be passed by. A regime of intellectual property that functions well, would be most likely to contribute to enhance Ukraine’s innovative capacity, rather than disposal of investments. In addition, in case that the country wants to maintain its quite good research capacity, the research institutes should be reoriented towards a strong commercial focus and the negative trend concerning the available skilled staff needs to be reversed (World Economic Forum, 2008: 13).

In a Cabinet Meeting in 2011, Ukraine’s Prime Minister Mycola Azarov stressed that innovation should be Ukraine’s basic driving force as far as economic growth is concerned. He added that during the years 2010-11 in terms of innovation a number of important finance, legislative and organizational solutions had been accepted, but this is not enough to sharpen and increase the competitiveness of the domestic economy. According to him, Ukraine is ranked 60th in Global innovative ranking out of 125 countries all over the world (see Table ), and he emphasized that a rating is not only a matter of prestige, as the low innovative quality has direct loses to the budget of the Ukrainian companies and the state’s budget (CMU Secretariat, 201123).

---

23 To read the full publication visit http://www.kmu.gov.ua/control/en/publish/article?art_id=244650228&cat_id=244314975.
Another example concerning innovation is that Ukraine spends about 7-8 times more money than it earns when it sells abroad own licenses, on the purchase of intellectual property rights. Since Ukraine’s independence, the investments’ share into medium and high technologies in terms of FDI didn’t exceed 2-4% annually. This is a situation that should change dramatically and as quick as possible (CMU Secretariat).

Remarks on the Overall Competitiveness

The most competitive economy of those presented, is Sweden, followed by and Finland. Other EU countries, such as Luxembourg and Germany, are also among the top 10 more competitive ones. Generally, the top 20 are dominated by the more developed EU’s countries, revealing the great divergence between them and the BS-10 countries. As expected, the BS-10 countries in total are less competitive than the EU ones. The average score of the first group is 4,07, while the corresponding rank of the second group is a higher 4,71 (see Table/s 3-4).

Azerbaijan leads the rankings of the BS-10 group, achieving classifications that ranging from 14 to 60 (which are its best rankings). Turkey is following Azerbaijan, while the worst BS-10 performer is Moldova. The BS-10’s scores in total, show also confirm the great divergence of economic development between the former Soviet Union’s countries, which after Soviet Union’s disintegration, and hence their independence, started their economic transition.

However, Ukraine in a few pillars is more competitive than the recent EU members, namely Bulgaria and Romania, which are the worst EU’s performers and in some cases worst that some BS-10 economies. In general, it is observed that countries that achieve good performances in the overall GCI, tend to achieve good performances across many of the pillars, and vice versa.

In the World Economic Forum’s “Ukraine Competitiveness Report 2008”, when it comes to the overall assessment of Ukrainian competitiveness towards a number of countries, finds out that the competitive potential of Ukraine still remains unrealized. In the measurement, Ukraine is ranked 72nd among a number of 131 countries (see Table 2). Ukraine also underperforms when it comes to Russia, which is a CIS member (see Tables 2 and 4).

According to the same report, a solid and robust performance on the first four pillars of competitiveness (namely institutions, infrastructure, macroeconomic stability and health
and primary education), can contribute more strongly to enhance the competitiveness of a country in transition, such as Ukraine. The following pillars (higher education and training, labor and financial markets, efficiency of the goods, market size and technology), come second in importance. Finally, the last two pillars (innovation and business sophistication), are of higher importance when it comes to more developed economies (World Economic Forum, 2008: 11).

Ukraine, as a country passing from the first (factor) to the second (efficiency driven) development stage\(^\text{24}\), should first focus on upgrading basic requirements, as well as on efficiency enhancers, in order to prepare itself for the near future. The other competitiveness factors, namely innovation and sophistication, that have a very weak influence in the overall GCI rank, at least at the current stage of development, play a less significant role (World Economic Forum, 2008: 43).

Despite these, the country’s advantage is that it has a large internal market, which is coupled with fairly high exports as a GDP percentage, and has also a quite good training and higher education system. It’s also ranked slightly above the average labor market efficiency ranks, in comparison with the other BS-10 countries and positioned somewhat better in the health and primary education pillar (World Economic Forum, 2008: 43).

Its basic weaknesses in comparison with its BS-10 and EU peers, are the institutions, the infrastructure, and the macroeconomic stability pillars, that are considerably less developed that the other economies included in the GCI (World Economic Forum, 2008: 43). The low rankings on the subindex concerning the basic requirements, is attributed to the above results. Taking into consideration the high expense that this subindex has in the overall scores of the GCI, and the weak performance of Ukraine in the three mentioned fields, any successful reform in one of those areas is likely to significantly upgrade the overall competitiveness of Ukraine and thus be prioritized (World Economic Forum, 2008: 43).

The fact that during the past 10 years no significant improvements in Ukraine’s ranking of competitiveness have been recorded, is worrisome. Though reform efforts have been undertaken by Ukrainian governments, the country is still at the 1997 level, as far as

\(^{24}\) World Economic Forum on its Reports, classifies the economies in 3 stages of development. The first stage of development includes factor-driven economies, the second one transition (from stage 1 to stage 2, where Ukraine is classified) economies, the third one efficiency-driven economies, the fourth one transition (from stage 2 to stage 3) economies and finally innovation-driven economies, which are the most sophisticated and advanced ones (World Economic Forum, 2011: 11).
In the 2006 Doing Business Report, Ukraine is the worst performer of the BS-10 counties as it ranks 124th (see Table 6). The second worst performer, after Ukraine is Georgia which ranks 100th. Ukraine’s performance looks very bad compared to the other economies of the group. The best performances though, are made by Armenia which ranks 46th and Bulgaria which ranks 62nd.

The corresponding measurements of the EU, indicate Denmark as the best performer, possessing the 8th rank and United Kingdom which ranks only one class lower than Denmark (see Table 5). The worst performers are Greece which ranks 80th and Romania which ranks 78th.

The next year, Ukraine’s position is deteriorated as it ranks 128th and it is the worst BS-10 performer (see Table 6). The next worst performer is Greece which ranks 109th. The best performers though are Armenia which ranks 34th and it is obviously very improved and Georgia which also possesses a very good 37. It should be stressed that Georgia has obviously made an impressive progress in only one year.

The best performer of the EU-27 is United Kingdom which ranks 6th, also improved and Denmark which ranks 7th (see Table 5). The worst performers are Greece once again, and the Czech Republic which ranks 56th. The divergence between the two top worst performers is great.

In 2008 accession, Ukraine comes last for one more time, possessing a 139, which is worse than previous year’s accession and Russia which ranks 106th (see Table 6). The best performances are those of Georgia ranked with a striking 18 and Armenia which ranks 39th.

The worst performance in the EU is that of Greece which is higher than the previous year, by 9 classes and Poland which ranks 74th (see Table 5). The top performers though are Denmark which ranks 5th and United Kingdom which ranks 6th.
In the 2009 Doing Business Report, Ukraine is the worst performer of the BS-10, being in a deteriorated position in comparison with the previous year (see Table 6). Russia comes second in worst performances as it ranks 120th. The best performer of the group is Georgia which is furthermore improved by 3 positions, possessing the most impressive rank of the other nine economies. Second good performer, though with considerable divergence, comes Azerbaijan which ranks 33rd.

The EU’s best performer is Denmark which ranks 5th and United Kingdom which ranks 6th (see Table 5). The worst performers are Greece which, though improved, ranks 96th and the Czech Republic which ranks 75th.

In 2010 the worst performer in BS-10 is Ukraine which ranks 142nd and Russia which ranks 120th (see Table 6). The best performers are Georgia which is even more improved by 4 positions reaching the 11th rank and Azerbaijan.

In EU-27, Greece is stable to its former rank and owns the worst performance and Poland comes second in worst performances as it ranks 70th (see Table 5). The best performances are made by United Kingdom which ranks 4th and Denmark which ranks 6th.

Since 2004, Ukraine has made significant progress in the reduction of trade barriers, as it decreased and stabilized the tariff rates which took place in 2005. Nonetheless, severe trade barriers, which will be discussed then, still remained (Crane, 2007: 23).

All foreign companies planning to do business in Ukraine interface, at one point or another, with government officials. In fact, every step required to do business, requires some interaction with the authorities of the Ukrainian State that can influence, either in a negative or in a positive way, a given transaction (Frishberg & Partners, 2007).

The State Property Fund (SPF) was the main agent was the main responsible for the failure of the implementation of medium and large-scale privatization with foreign investors. Instead of this, SPF was encouraging joint ventures. In operations concerning imports and exports, the state customs authorities are mainly responsible for expediting, or delaying the processes concerning the customs clearance (Frishbeg & Partners, 2007).

Foreign investors, before entering the Ukrainian market, often ponder whether their approach to the relevant state officials will be direct, or alternative, by sending someone else in order to represent their interests. The initial choice is significant because the first
official visit is able to produce either immediate positive results or unexcelled future barriers, depending on the preparation degree. In the real estate construction area this is especially vital (Frishberg & Partners, 2007).

According to a recent World Bank survey, from 2005-2008 the FSU-S and FSU-N countries, measuring corruption, have not improved as a group. Though countries with high per capita incomes tend to be low in bribe frequency, in Ukraine, where the income level compared to the other Former Soviet Union (FSU) countries is relatively higher, bribe frequency is far more higher than predicted, taking into account the per capita income (World Bank, 2011: xii).

Since 2005, consecutive Ukrainian Governments have improved considerably the business environment, as they eliminated most customs and tax privileges that attracted more economic activities in Ukrainian large shadow economy. Furthermore, in its efforts to join the World Trade Organization, the country introduced in 2006 more that 20 laws, making a step forward in bringing its economic regime towards the international standards. Yet till now, the Governments have avoided to tackle the most sensitive, in political terms, reforms. Specifically, there’s poor progress been made with regard to fighting corruption, improving the legislative framework concerning businesses and developing capital markets (World Economic Forum, 2008: 42).

On March 15, 2011, the Ukrainian Parliament the Draft Law Concerning Basic Anti-Corruption Measures in Ukraine. The Law foresees regulations concerning a wide variety of state services and spheres of public life. It initiates the creation of single state registry for persons that have violated the Law that will be coordinated by the Ukrainian Ministry of Justice. Furthermore, the Law defines various practices for corruption fighting, foresees the establishment of anti-corruption expertise on the drafts of the legislative-normative acts and widens the circle of individuals that may have responsibility for corruptive actions. This Law, shall make public sector less vulnerable to corruption and has potentials to improve the image of Ukraine in the international arena (European Business Association, 201125).

In 2007, Ukraine initiated a one-stop shop which would be used for the registration of new businesses. The foundation of one-stop shops in order to register the new

---

25 To see the full reference, visit http://www.eba.com.ua/news/The%20Law%20Concerning%20Basic%20Anti-Corruption%20Measures%20in%20Ukraine%20was%20approved%20by%20Verkhovna%20Rada%20of%20Ukraine
companies, was a very popular reform in 2005-2006. What Ukraine did, was to combine company, social security and tax registration, all in one building. One-stop shops are not enough for a business to operate, as there are many other required procedures for this, which are going to be analyzed in this chapter. It is necessary to simplify or cut other start-up procedures so as one-stop shops function efficiently. However, these shops are a way to reduce bureaucracy in a degree, and it is an important initiative especially for Ukraine (World Bank, 2006: 10-12).

In 2005-2006, Ukraine was among the countries which facilitated the procedures needed to conform to building requirements and simplified its business licensing regime. At the same period, Ukraine initiated accelerated “payment order procedures”, when there where small, undisputed cases (World Bank, 2006: 14, 50).

The Executive Opinion Survey requests the leaders of the businesses to assess the most problematic actors for doing business. Out of a list that contains 14 actors, businessmen are asked to stress the five that have the most serious influence on their economic activities in the country World Economic Forum, 2008: 43).

The top six most constraining factors on doing business can be classified into three subject-categories which are corruption, government and policy instability and tax administration. The government and policy instability is assessed by the majority of the responders as the major impediment in doing business. It is interesting that though Ukraine’s economy has shown significant adaptability to the instable policy since 2004, as it kept growing at very high rates, businesses perceive political instability as a major impediment. Especially, the unstable political situation that followed the Orange Revolution, has shaken the country and significantly destabilized the consumers as well as the business sector (World Economic Forum, 2008: 43).

Corruption comes second in the list of impediments in doing business. If combined together with inefficient bureaucracy that is another category of the given list, ranked 6th, this shows that the administrative-capacity-related issues constitute one of the major problems that businesses in Ukraine face.

The third, in order of importance, factor of the list is tax administration, both in tax regulations and tax rates terms. Though tax rates have been decreased, the complicated tax regulations are opaque and allow the persistence of loopholes, hampering the competitiveness of the country. What is also interesting is that though inflation,
infrastructure and access to finance should be three of the most deterrent factors in doing business, as they are included in the weaknesses of the country’s economy, these actors are not referred as particularly problematic (World Economic Forum, 2008: 44).

The EU Commissioner for External Trade Peter Mandelson, in an interview that he gave in 2008\textsuperscript{26}, says that the Ukrainian President Victor Yushchenko and he have launched negotiations concerning a Free Trade Agreement (FTA)\textsuperscript{27} between Ukraine and the EU. The negotiations began after the signing of Ukraine’s accession process in the WTO, as the above agreement was a prerequisite to start the FTA talks. This closer economic partnership shall boost trade and investment and will have huge benefits for in Ukraine, according to the same person, as EU is by far Ukraine’s largest export market. The FTA planned to attract investment for both sides and converge Ukraine’s regulatory standards with those of EU (Oxford Business Group, 2008: 18).

It would also decrease the imports of EU for the Ukrainian businesses and consumers and increase the access of Ukraine to the European market, which is the world’s largest market. FTA would also the conditions for European investment in Ukraine by the creation of more predictable and transparent rules. The encouraging of trade would help Ukrainian and European businesses to create new links between them (Oxford Business Group, 2008: 18).

Ukraine is a net exporter regarding electricity, and importer of its natural gas. Electricity and gas are available in most regions and their distribution is provided by regional monopolies. The electricity and gas distribution industries are at the moment both publically and privately owned (Magisters, 2010).

The country also has specific monopolies for specific traditional types of activities that are restrictive for both foreign and native investors (such as banknotes, pronunciation of ammunition, etc). In addition, in specific areas there are restrictions concerning the maximum allowed capital investment into the capital of a company in Ukraine that is engaged in a specific industry. For instance, the foreign investment into the capital of Ukrainian companies that are engaged in distribution and media publishing is not allowed to surpass the 30%. The establishment of media and radio is also prohibited and only in case of

\textsuperscript{26} The interview was taken by the Oxford Business Group.

\textsuperscript{27} The Free Trade Agreement was part of the wider European Neighborhood Policy (Oxford Business Group, 2008: 18).
subsequent sale is allowed to foreigner to purchase it. There are several other restrictions that are sector-specific and require license (Magisters, 2010).

Ukraine’s Land Code provides land-related restrictions for the foreign investors. In specific, joint ventures, foreign individuals and foreign entities are prohibited to own agricultural lands and other restrictions. It has to be stressed however, that the purchase of land by the registration of subsequent legal entities of Ukraine is a common tactic of many foreign investors. This practice though, is not 100% certain and this is regarded by many foreign leaders as a little defect (Magisters, 2010).

According to UHY28, the Ukrainian authorities make regular efforts to encourage FDI, and also the Ukrainian citizens are well disposed to foreign investments. Permits for investment are not required, however the establishment of all businesses must be done according to the form and the procedure that is prescribed by the law of Ukraine and must be registered by the appropriate government agencies. In general, foreign investors are not required to look for special approval from authorities when it comes to foreign direct investments (UHY, 2011).

Formally, the Ukrainian State provides equal treatment regarding the law for foreign investors and propels FDIs. However, essentially little has been done to tackle contradictory legislation, business-related confusing, non-transparency and bureaucracy over the past five years (Magisters, 2010).

Furthermore, there are some restrictions in foreign investments as far as publishing and broadcasting sectors are concerned. Foreigners are also not allowed to take part in the weapon manufacturing sector. Generally, FDIs in Ukraine are not to be subjected in requisition, nationalization, expropriation, or other measures of similar effect, except when it is in public’s interest. In this case, investor must be provided with compensation, based to property’s market volume (UHY, 2011).

Starting a business

In 2009-2010, Ukraine facilitated the start-up of a business, as it reduced the minimum capital requirements (World Bank, 2010: 142).

---

28 UHY is an international organization providing business management, accountancy and consultancy services to the businesses. Its branches are located in over than 70 countries all over the world.
The process of establishing a legal business in Ukraine includes registering with the tax authorities, the local state registrar, the statistics office, several social and pension funds, and also opening an account in bank and other formalities. Foreign investors in Ukraine choose to found either a Limited Liability Company (LLC)\(^\text{29}\), or a Joint Stock Company (JSC)\(^\text{30}\), or in limited cases, a representative office\(^\text{31}\) that is engaged in commercial or non-commercial activities (UHY, 2011).

**Dealing with construction permits**

In 2009-2010, the country made easier the dealing with construction permits, when applied local and national regulations which rationalized the procedures (World Bank, 2010: 142).

**Paying taxes**

In 2009-2010, Ukraine introduced and enhanced the electronic filing system concerning value added tax, in an effort to ease tax compliance (World Bank, 2010: 142).

**Conclusions**

Ukraine since its independence in 1991, when it was one of the strongest economically, former Soviet Union’s republics, has had a highly painful and long transition. The year 1994\(^\text{32}\) was the worst one for its economy and it took 10 years to reach in 2004 to achieve a pre-transition level of per capita GDP in PPP terms. After the inextricable macroeconomic reforms that were introduced in the end of 1990s, Ukraine is now in a more positive growth track. The real GDP in the years 2000-2007, increased more than 7%. In

\(^{29}\) An LLC doesn’t have shares in a conventional sense. The participants of an LLC possess a percentage in the capital of the company and can transfer the participation they have in the capital of the company, to third parties that are not participants, only in case that the other participants consent (UHY, 2011).

\(^{30}\) A JSC is the legal entity whose capital shares are divided into shares that have equal nominal value. The liability of the shareholders in a JSC is proportional to the value of their contribution to the capital. A JSC may be founded as “private” or “public”. Ukrainian JSCs as far as their function is concerned, are similar to Russian JSCs. In some cases however, their function seems to be closer to western joint-stock companies (UHY, 2011).

\(^{31}\) The representative offices are established by companies in order to carry out promotional, marketing and other preparatory and auxiliary functions on the company’s behalf (UHY, 2011).

\(^{32}\) In that year, Ukraine’s GDP fell at a shocking 22.9% (World Economic Forum, 2008: 37).
addition, the recent WTO participation as well as the potential, though distant, accession to the EU, provide additional impetus for investment and reform (World Economic Forum, 2008: 37).

The recent years, Ukraine has witnessed a strong economic development and increasing personal income levels. The economy’s industrial base has also done well as a consequence of a global demand for machinery, steel and other manufactured goods. Meanwhile, Ukraine has had a growing presence on the radars of foreign investors. Its international significance was recognized with its membership to the WTO in early 2008 (Oxford Economic Group, 2008: 22).

Yet Ukraine in its effort to move toward faces a number of challenges: the current account deficit gets wider and the inflation is high. But primarily, the various political conflicts have put on the back burner many crucial and vital structural reforms. Furthermore, the administrations’ short life span leads to concentration of short-term solutions. The programs for privatization are also deadlocked politically, as several recent governments reverse earlier policies with their decisions (Oxford Business Group, 2008: 22).

However, the banking sector is much stronger in the recent years and many industries that make exports, have undertaken programs for investment that are made by themselves in order to sharpen the global competitiveness. Many insiders say, the potential for sustained growth is still there. Indeed, many companies have witnessed a high-digit expansion once they’ve overcome the hurdles. Entire economic sectors as well, have substantially been benefited from major investments, such as agriculture. Energy generation and distribution, manufacturing and also a number of other sectors have also major potential going forward (Oxford Business Group, 2008: 22).

It was difficult for the Ukrainian governments to liberalize trade, and thus turn to a market economy, and also create the appropriate climate which would attract the Foreign Direct Investment (FDI). The two priorities of the Ukrainian economic policy (trade and FDI), have contributed greatly to the economic development and to the living standards of many countries all over the world, and especially in Central European countries. Nevertheless, the process of opening the boarders to trade has been slow in Ukraine and it was difficult for it to attract considerable FDI inflows. The result of the slow transition process was the economic suffering for Ukraine, as its living standards were far below those in Russia, Central Europe and Kazakhstan (Crane, 2007, ix).
According to Crane and Larrabee, the greatest barrier to trade and FDI for Ukraine, is corruption, whether grand or petty\(^{33}\). The foreign businesses more frequently complain about the legal and regulatory barriers which are designed to facilitate bribes. The Ukrainian governments, in hopes of facilitating bribes, design registration and licensing procedures to be so complicated that can seriously threaten to stop or slow down trade or FDIs. This results the reduction of both trade and investments, as the time and the expenditures needed in order to get the necessary licenses and permits to trade or start a business add essentially to costs (See Table ). The rigged privatizations are also an obstacle to FDI. Ukraine’s corrupted judges and contradictory laws make it more complicated for businesses to run contracts and for investors to invest their capital (Crane, 2007: x).

Until 2007, one of the main problems that Ukraine was facing was that it was not a World Trade Organization (WTO) member yet, though all major Ukrainian political parties had supported this step. This had resulted the discriminatory treatment that the Ukrainian businesses were facing in most export markets. Importers and exporters in Ukraine had to deal with arbitrary changes that domestic policies imposed, as the Ukrainian government had no limitations by the treaty obligations (Crane, 2007: x).

Corruption also comprises a barrier for exports, as it provides to exporters discounts for value-added tax (VAT). The Ukrainian government encourages businesses seeking VAT refunds in order to hire the local law or consulting firms which charge a “fee” that ranges from 25-30% of the refund to accelerate reimbursements. Companies that hire the above firms enjoy a rapid reimbursement. Conversely, companies that don’t do that, have to wait about three to eighteen months for reimbursement. In the case of smaller companies there may be no reimbursements at all (Crane, 2007: x).

Importers also have to face the corrupted and complicated system of the certification of imports. The internationally accepted practice wants the importing country to recognize products that are certified by accredited bodies which are located in the partner states and follow internationally recognized acceleration procedures. In Ukraine, all products are subjected to mandatory certification, which constitutes a very long list and also they have to be recertified. All these increase the costs of the importers (Crane, 2007: x).

\(^{33}\) The grand corruption includes high-level officials that have discreet authority over government’s policy, the sale of government property, and large government contracts, while petty corruption includes lower-level officials that have the authority to decide about the enforcement, or not, of regulations (Crane, 2007: ix).
Taking into account that population’s educational level is high, wages are low, there’s a big inventory of scientific knowledge and a broad industrial infrastructure and agricultural potential, Ukraine should be prosperous country. This is the Ukrainian paradox; the DGP per capita is low\textsuperscript{34}, technology is not properly utilized, the productivity per person and per hectare in agriculture is also low and there’s a highly unequal distribution of wealth: only the 1% of the Ukrainian population are very wealthy, a 10% is well off, a 20-30% can satisfy only minimal needs and the rest of the population is poor or very poor. As a result, Ukrainians are dissatisfied and feel insecure (Hayoz, 2005: 120).

Heavy industry still remains Ukraine’s primary sector, while finance and telecommunications are also thriving. Furthermore, measures have been taken by the government in order to eliminate shadow economy, which is one of the country’s major problems, though there’s still enough space for it to go through, in the fight against corruption, by the improvement of the legislative framework that concerns businesses and the reform of the schemes which concern the privatization of the land (Oxford Business Group, 2007: 8).

Today, the Ukrainian economy still relies heavily on agriculture that in 2006 contributed 17.5% of GDP. On the contrary, the rate of the services sector is quite low at 39.8%. Furthermore, Ukraine’s high dependence on Russia when it comes to energy supplies, the lack of structural reforms that will be proved significant and the undiversified export structures which heavily rely on natural resources, make Ukrainian economy extremely vulnerable to external shocks (World Economic Forum, 2008: 42).

Overall, the 12 GCI pillars analysis in Chapter 2, shows that Ukraine faces many challenges in its effort to reach a sustainable growth track. Ukraine in its effort to reform should focus on tackling favoritism and corruption, upgrading public institutions, raising corporate governance standards and strengthen property rights. There should also be a reform on the competition context, including FDI regimes and trade. Intensification of the technology transfer is also a part that should receive particular attention (World Economic Forum, 13).

Ukraine lags behind EU rankings in most dimensions of competitiveness and has a long way to run in order to converge towards the European standards.

\textsuperscript{34} According to IMF’s Report, in 2002 it was approximately $4,000 on purchasing power parity basis (IMF, 2003: 4).
Perspectives

The recommendations that are following in this section are aiming to help policy makers to define priorities for investment and reform. The proposals will also help them to make informed choices in order to benefit the future generations.

According to Drzeniek and Geiger edited the World Economic Forum’s Ukrainian competitiveness report, Ukraine is undoubtedly a country that has great, unrealized though, potential. The transition years (namely the 1990s), which they call “chaotic”, left a heavy load for the country’s economy, as they induced high corruption levels, depleted infrastructure, incomplete reforms for the institutional framework, post-Soviet conglomerates that hadn’t been restructured and political constellation that blocked rather than favored reform (World Economic Forum, 2008: 11).

The unrealized potential of the country is also confirmed by Ukraine’s past, when, as a part of the Soviet Union, it was the greatest economic engine for the Union, after Russia, producing approximately 4 times the output that the next-ranking republic was producing. Ukraine’s fertile black soil generated over than the 25% of the Soviet agricultural output and the country’s heavy industry supplied equipment, raw materials and machinery to mining and industrial areas of other former USSR’s regions (World Economic Forum, 2008: 41).

Just after Ukraine’s independence, the Government liberalized prices and enacted a legal framework concerning privatization. Despite these, the overall resistance to reform inside the government stalled the efforts for reform and led to back tracking in structural reforms. As a result, the most state-owned enterprises were excluded from the process of privatization and were not restructured. In order to keep the agricultural sector and the industries alive, the Government financed them a lot in the following years (World Economic Forum, 2008: 41).

In order to enhance the competitiveness of the country, major economic reforms should be introduced. The implementation of the reforms requires consensus across the political class. An objective assessment of Ukraine’s competitive advantages and weaknesses shall provide a basis for debate and discussion (World Economic Forum, 2008: 11).
Bibliography

**Books**


**Articles-Publications-Reports-Press Releases**


• European Business Association, *The Law Concerning Basic Anti-Corruption Measures in Ukraine* was approved by Verkhovna Rada of Ukraine, EBA, 2011.


Web Links

- http://bbc.co.uk
- http://blackseagrain.net
- http://www.cia.gov
- http://www.doingbusiness.org
- http://eba.com.ua
- http://www.imf.org
- http://kmu.gov.ua
- http://www.magisters.com
- http://tradingeconomics.com
- http://weforum.org