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COMPETITIVENESS AND THE FACTORS INFLUENCING IT

The paper offers a new interpretation of the notion "competitiveness". The genesis of the notion "competitiveness" in economic literature is studied. The detailed analysis of the opinions of domestic and foreign economists on the notion is carried out. New indicators to measure competitiveness are suggested. The dynamics of the given indicators is analyzed. The ways to improve the indicators of competitiveness are provided.

Keywords: competitiveness; competitive market; productivity level; direct foreign investment; gross domestic product.

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КОНКУРЕНТОСПРОМОЖНІСТЬ І ЧИННИКИ, ЩО ВПЛИВАЮТЬ НА НЕЇ

У статті дано нову інтерпретацію поняття «конкурентоспроможність». Автором вивчено генезис поняття «конкурентоспроможність» в економічній літературі. Надано ґрунтовний аналіз точок зору провідних вітчизняних та зарубіжних економістів на поняття «конкурентоспроможність». Запропоновано вимірювання конкурентоспроможності за допомогою нових показників. Проаналізовано динаміку даних показників. Представлено шляхи покращення показників конкурентоспроможності.

Ключові слова: конкурентоспроможність; конкурентний ринок; рівень продуктивності; прямі іноземні інвестиції; валовий внутрішній продукт.

Табл. 2. Рис. 7. Літ. 11.

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КОНКУРЕНТОСПОСОБНОСТЬ И ФАКТОРЫ, ЧТО ВЛИЯЮТ НА НЕЕ

В статье дана новая интерпретация понятия «конкурентоспособность». Автором изучен генезис понятия «конкурентоспособность» в экономической литературе. Представлен анализ точек зрения ведущих отечественных и зарубежных экономистов на понятие «конкурентоспособность». Автором предложено измерение конкурентоспособности с помощью новых показателей. Проанализирована динамика данных показателей. Предложены пути улучшения показателей конкурентоспособности.

Ключевые слова: конкурентоспособность; конкурентный рынок; уровень продуктивности; прямые иностранные инвестиции; валовой внутренний продукт.

Problem statement. To function successfully at the competitive market, market participants should have sufficient level of competitiveness. The notion of competitiveness is interpreted differently in economic literature. National, industrial or technological competitiveness is interpreted differently depending on the fact whether the notion is used by economists or officials working in the appropriate field. Economists agree that a company, an industry or a country can be considered competitive if it is able to keep its share at the existing markets and conquer the new ones. The scientists studying the notion of competitiveness at the national level believe that competitiveness is the set of institutions, political means and factors that determine the produc-

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tivity level of a country. The productivity level is the level of lasting prosperity achieved by economy (Schwab et al., 2010). So, economics with higher level of competitiveness is able to guarantee higher level of wealth for its citizens. That's why it is extremely important to search for new ways of competitiveness level increase.

Literature review. The scientist who is considered to be the founder of the notion "competitiveness" is Professor of Harvard Business School Michael Porter. He asserts that a company's competitiveness is defined by its economic surrounding which depends on the basic conditions and competition level inside a cluster. The scientist also developed the method of competitiveness analysis, the so-called Porter Five Forces Analysis, that is the method of industry branches and business strategy development analysis. The analysis defines competitiveness intensity and attractiveness of a certain industry branch (Argyres, 2002).

The main criticism of the notions of competition and competitiveness in general and the role the above notions play in today's life has been put forward by P. Krugman – the Nobel Prize winner and Professor of Economics at Princeton University. In 1994 he criticized Jacques Delors' assertion that the key reason of unemployment in Europe at the end of the 20th century was insufficiently high level of competitiveness if compared with the United States and Japan. He didn't agree with the statement that the solution of the problem mentioned above was investment in infrastructure and high technologies. In such statements P. Krugman saw the confirmation of Bill Clinton's words "every nation is like a big corporation which competes at the global market" (Krugman, 1994). This statement is difficult to agree to as what is good for a corporation is not always good for a country.

P. Krugman thinks it is very problematic to define the notion of "nation's competitiveness". It is harder than to define the notion of corporation's competitiveness. According to the scientist's words the notion of competitiveness of a nation is illusory because when we speak about the results of a corporation's activity, these are only the results of its activity. That is, if a corporation is not able to pay wages to its workers or pay its providers and shareholders, the corporation can simply stop its activity. So, if we talk about an uncompetitive corporation, we mean its position at a market is not stable and it will either improve its performance or cease its activity. The situation with countries is absolutely different – a country can't just stop functioning. Countries can be satisfied with the results of their economic activity or not, but they can't have the so-called extreme limit (Krugman, 1994). Some scientists consider trade balance to be the extreme limit of a country's activity. So, the competitiveness of a country can be measured by the country's ability to sell more than to buy. If export prevails over import, the number of jobs is constantly increasing but all the countries can't increase the amount of exported goods endlessly. They won't have the place to export them to. To our mind the fact that export prevails over import isn't necessarily the indicator of country's stable development. In case of a corporation, the key indicator of its successful activity is the increase of its incomes. In the case of a country the increase in the unemployment level is the by-effect of incomes increase. In this case we can't call a country competitive or successful. On the other hand, we can't agree with the scientist's statement that competitiveness is a meaningless word if we talk about national economy.

Despite the great popularity and liveliness of the Krugman's theories he admitted that they can be applied only to the trade between industrially developed countries. In the case of developing countries his theories don't work.

The research objective. The importance of competitiveness not only for a single enterprise but for the whole country as well was long ago understood in all the countries, especially in those we used to call the highly developed ones. In 1979 the President of the United States of America J. Carter wrote a letter to the Congress in which he pointed out that the most important task for the USA at that time was to achieve a high level of competitiveness at the international markets. The result of that was the adoption of the Stevenson-Wydler Technology Innovation Act, the purpose of which was to increase the level of competitiveness of the USA by activating business ventures and motivating private sector (Krasnokutska and Harbuz, 2005). The next step was the list of President R. Reagan, in which he suggested to take all the necessary measures to increase the competitiveness level and knowledge transfer from educational institution to industries (Hirooka, 2006). Everything mentioned above proves the fact that United States have been doing everything possible to increase the competitiveness level of their industry by developing the national innovation system.

For several years already competitiveness is the key word in the economy and politics of the European Union. In March 2000 the European Council approved the so-called Lisbon Strategy according to which it was planned to make the most dynamic and competitive economy in the world out of the European Union. The legal confirmation of the fact that the European Union pays great attention to the problem of competitiveness is Article 173 of the consolidated version of the Treaty on European Union and Treaty on the Functioning of the European Union, in which it is said that "The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist" (Official Journal of the European Union, 30.03.2010).

Taking into consideration the fact that highly developed countries pay great attention to the competitiveness level increase, we should double our efforts to solve the same problem. But before we search for the ways to increase competitiveness, let's consider the factors that have the greatest influence on it.

Key research findings. The most convincing indicator of competitiveness level of a country is the level of its economic development. To analyze the level of economic development of a country it is necessary to consider definite indicators which show the functioning regularity of a country under study. These indicators include gross domestic product (GDP), inflation rate, the amount of foreign direct investment (FDI), the indicators of industrial development of a country etc. Let's start the analysis of the level of Ukrainian economy development with the analysis of GDP because the world's practice shows this indicator is one of the most precise one to characterize the level of economic development of a country. Let's follow the dynamics of Ukraine's GDP in Figure 1.

Analyzing Figure 1 we can state that after 2009 the GDP dynamics has a clear upward trend. In 2009 the GDP was 913345 mln UAH and in 2010 it was 1082569 mln UAH, that is 169224 mln UAH, or 18.5% more than in 2009. The mentioned trend continues in the following years: in 2011 GDP in Ukraine increased by 219510 mln UAH, or 20.3% if compared with 2010 and in 2012 – 97921 mln UAH,

or by 7.5% if compared with 2011. The only exception in this optimistic trend was 2009, in which GDP decreased by 34711 mln UAH, or 3.7% if compared with 2008. The explanation of this phenomenon is the negative influence of the world financial crisis on economic processes in Ukraine as the process of globalization is nowadays so penetrative that it is simply impossible for a single country to exist and function without being influenced by the world economic processes.

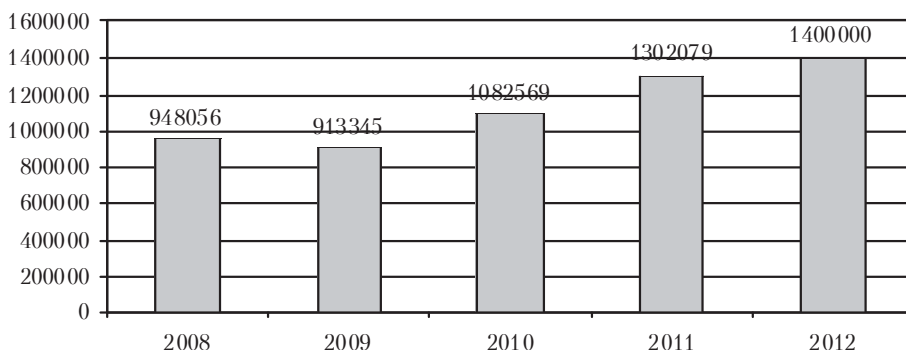


Figure 1. Dynamics of Gross Domestic Product in Ukraine (in current prices), mln UAH, author's own calculations based on (Gross Domestic Product of Ukraine, State Statistics Service of Ukraine, 2009–2013)

As the main purpose of functioning of every country is the increase of their citizens' wealth let's consider the dynamics of Ukraine's GDP per capita (Figure 2).

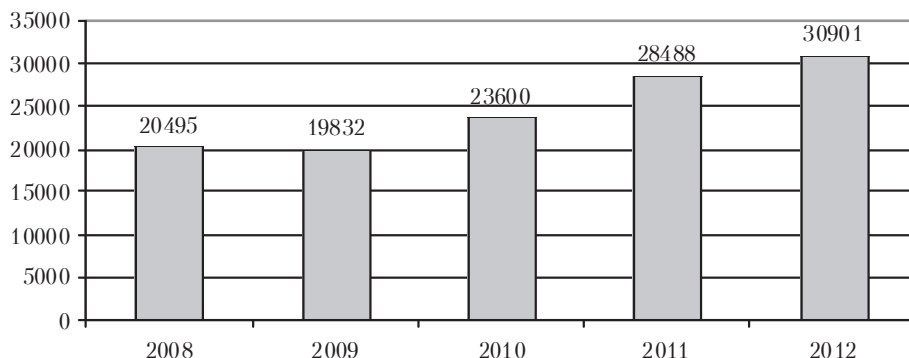


Figure 2. Dynamics of GDP in Ukraine per capita, UAH, author's own calculations based on (Gross Domestic Product of Ukraine, State Statistics Service of Ukraine, 2009–2013)

Having analyzed Figure 2 we can state that the dynamics of Ukraine's GDP per capita has a clear upward trend except 2009. In 2010 this indicator increased by 3768 UAH, or 19% if compared with 2009. In 2011 GDP per capita increased by 4888 UAH, or 20.7% if compared with 2010. 2012 was notable for the increase of Ukraine's GDP per capita by 2413 UAH, or 8.5% if compared with the previous year. The exception from the general upward trend in the above dynamics was 2009, in which the indicator mentioned above decreased by 663 UAH, or 3.2%. The main rea-

son for that was the negative influence of the world financial crisis just as in the situation with the general GDP.

The next indicator, considered to be a very important one in the analysis of economic development of any country, is the inflation rate. Let's analyze the dynamics of this indicator in Figure 3.

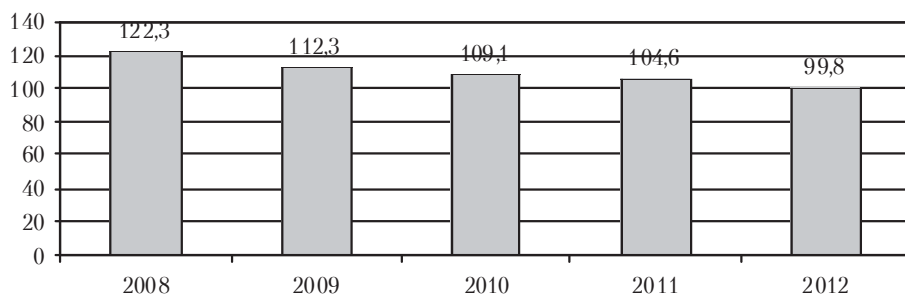


Figure 3. Inflation rate dynamics in Ukraine, %, the author's own calculations on the basis of (Inflation Rate, Ministry of Finance of Ukraine, 2014)

Looking at Figure 3 we notice a clear downward trend in the dynamics of inflation rate in Ukraine. In 2009 this indicator decreased by 10% if compared with 2008, in 2010 the decrease was 3.2% in comparison with the previous year, in 2011 – 4.5% and in 2012 – 4.8%, if compared with 2011. The trend mentioned above characterizes the economic development of Ukraine as it testifies its stabilization.

Analyzing the economic development of Ukraine it is necessary to consider the amount of direct foreign investment into the economy. The FDI dynamics into the economy of Ukraine is analyzed in Figure 4.

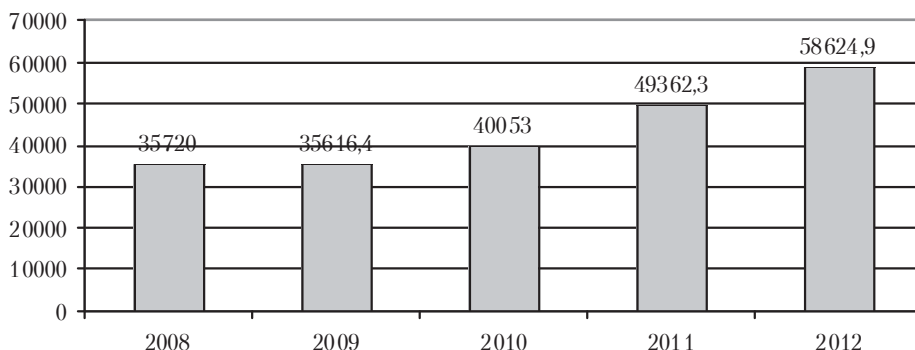


Figure 4. Dynamics of direct foreign investment into the economy of Ukraine, mln USD, author's own calculations on the basis of (Analysis of Foreign Direct Investment in the Share Capital of Ukraine, Ministry of Economic Development and Trade of Ukraine, 2013)

The analysis of Figure 4 allows us make a conclusion about the upward trend in the amount of FDI into the economy of Ukraine with the exception of 2009, in which we notice the decrease in the amount of FDI, that is 73.6 mln USD or 0.2% if compared with 2008. In the following years nothing interrupts the upward trend in the amount of FDI into the economy of Ukraine. In 2010 the amount of FDI was 4406.6

mln USD, or 12.4% more than that in 2009. In 2011 the upward trend continues showing the change in the amount of FDI of 9309.3 mln USD, or 23.2% towards increasing if compared with the previous year. 2012 was distinguished by the increase in the amount of FDI into the economy of Ukraine 9262.6 mln USD or 18.8% in comparison with 2011. So, the least amount of money invested into the economy of Ukraine by non-residents of Ukraine was in 2009. The explanation of that is the influence of the world financial crisis, reduction of the amount of credits and employees and, as a result, the deterioration of investment attractiveness of our country for foreign investors. The upward trend in the amount of direct foreign investment into the economy of Ukraine indicates the improvement of the investment climate in our country that attracts investors from abroad. We attribute the following factors to those improving the image of Ukraine among foreign investors: favorable geographical location of the country, the availability of cheap labor force, the availability of raw materials and resources of high quality and a big market for goods and services. The increase of foreign investment is able to influence the payment balance of the country and employment rate in a positive way. It can also promote further development of the country.

Let's analyze the sources structure of FDI into the economy of Ukraine in 2012 in Figure 5.

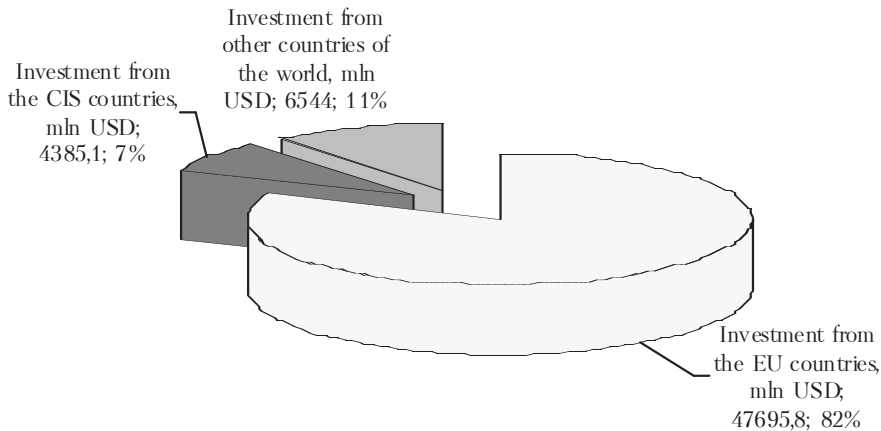


Figure 5. The sources structure of FDI into the economy of Ukraine in 2012, mln USD, author's own calculations on the basis of (Analysis of Foreign Direct Investment in the Share Capital of Ukraine, Ministry of Economic Development and Trade of Ukraine, 2013)

Having analyzed Figure 5 we can draw the following conclusion: the EU countries invest the greatest amount of money into the economy of Ukraine. Their share in the total amount of FDI is 82%. The second largest investor is other countries and the CIS countries take only the third place with reference to FDI into the economy of Ukraine.

Foreign investors note that the investment climate in Ukraine is getting better and better but they mark the following problems that don't let investment from abroad flow into the economy of Ukraine: problems in dealing with tax authorities, frequent inspections and imperfect legal regulation of investment activity.

Our next step in the analysis of the economic situation in Ukraine will be the analysis of FDI into the economy of Ukraine per capita, which we make according to Figure 6.

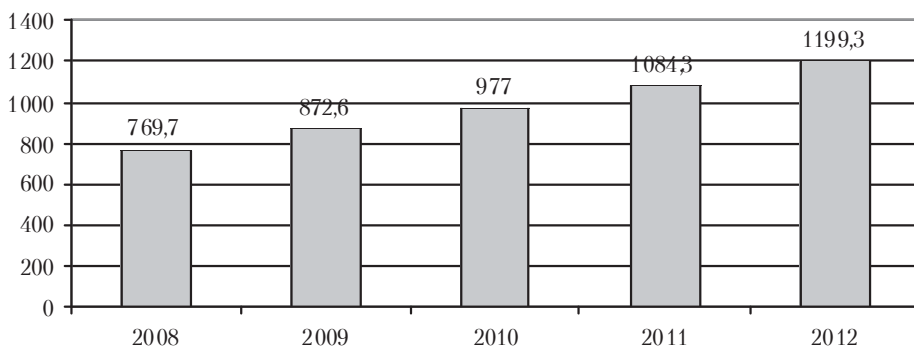


Figure 6. Dynamics of FDI into the economy of Ukraine per capita, USD,
*author's own calculations on the basis of (Analysis of Foreign Direct
 Investment in the Share Capital of Ukraine, Ministry of Economic
 Development and Trade of Ukraine, 2013)*

The analysis of Figure 6 enables to state that FDI into the economy of Ukraine per capita has a clear upward trend. In 2009 FDI per capita into the economy of Ukraine increased by 102.9 USD, or 13.4% if compared with 2008. The increase of the said indicator in 2010 was 104.4 USD, or 11.9% in comparison with 2009. 2011 was marked with the increase in the amount of FDI per capita 107.3 USD, or 10.9% if compared with 2010. In 2012 the increase of FDI per capita was 115 USD, or 10.6% in comparison with the previous year. So, we see that FDI into the economy of Ukraine per capita is steadily increasing, which means that Ukraine is slowly recovering from the financial world crisis 2008 and is increasing the speed of its economic development.

The basis of economic development of every country is the successful development of its industry. Industry is the main component of production, it is closely connected with other branches and influences greatly their further work. Industry is the leading branch of economy that's why the amount of direct foreign investment into it is the important indicator of not only the level of economic development of the branch, but of economic development of the whole country. Let's analyze the dynamics of FDI into the industry of Ukraine in Figure 7.

Figure 7 shows us that in 2009 the amount of FDI into the industry of Ukraine increased by 48.5 mln USD, or 0.4% if compared with 2008. In 2010 FDI increased by 806.7 mln USD, or 6.5% in comparison with 2009. 2011 noted the increase of FDI into the industry of Ukraine by 766.2 mln USD, or 5.7%. 2012 was marked with the increase of FDI by 3124.1 mln USD, or 22.2%. The latter increase was the largest one during the researched period. If we compare the amount of FDI into the industry of Ukraine in 2012 to that of 2008, we see the change in the indicator into the upward trend that is 4745.5 mln USD, or 38.2%. Such an optimistic result testifies that the investment climate in Ukraine is constantly improving in general and in industry in particular.

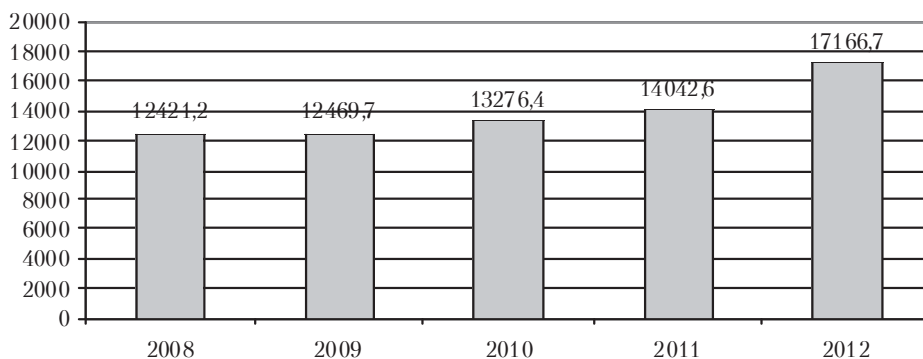


Figure 7. **Dynamics of FDI into the industry of Ukraine, mln USD, author's own calculations on the basis of** (Analysis of Foreign Direct Investment in the Share Capital of Ukraine, Ministry of Economic Development and Trade of Ukraine, 2013)

To have a more precise point of view of the development level of Ukrainian industry, let's analyze the dynamics of production amount according to the index of industrial production, which is the comparison of production amount for a certain period of time. The dynamics of industrial production index is characterized in Table 1.

Table 1. **Dynamics of Industrial Production Index, % to the previous year**

Indicator	2008	2009	2010	2011	2012	Deviation 2012 to 2008 (+, -)
Industry	133.0	70.5	117.1	103.4	94.9	-38.1
Mining and Processing Industry	133.5	64.6	120.1	103.8	93.7	-39.8
Processing industry	134.2	64.9	120.0	103.7	93.8	-40.4
Processing agricultural industry	110.8	83.5	123.8	98	96.2	-14.6

Source: the author's own calculations on the basis of (Industrial Production Indices by Activities, State Statistics Service of Ukraine, 2013).

In 2009 we notice the decline in the industrial production of 29.5% if compared with 2008, in the processing production – 35.1%. The decline of production in agroindustrial complex was 27.3% in comparison with the previous year. In 2010 the trend changed showing the increase in the industrial production by 17.1%, in the processing industry – 20% if compared with 2009. In 2011 we note the decrease in the amount of industrial production by 13.7%. If we talk about the processing industry, the decrease in the amount of production was 6.3% in comparison with 2010. The situation with the processing industry of agroindustrial complex is very much alike – the decline in production in 2011 was 25.8% if compared with 2010. 2012 didn't change the declining trend in the volume of production. If we talk about industrial production, the decrease in the amount of production was 8.5% in comparison with 2011. The change in the processing industry is also negative being 9.9% in comparison with the previous year. The decline of production in the agroindustrial complex was 1.8% if compared with 2011.

If we compare the industrial production index in 2012 with that of 2008, we shall see the negative change being 38.1% for the industry, 39.8% – in mining and pro-

cessing industry, 40.4% – processing industry and 14.6% in the situation with agro-industrial complex.

As we can see from Table 1 the highest level of industrial production was noted in 2008. The highest value in the column of processing industry is 134.2%. But the financial crisis of 2008 had negative influence on economic development of the whole country and reflected in the decline of industrial development speed. We notice the worst value of 64.6% in the column of mining and processing industry. Despite the amendment of the situation in the following years the analysis of the data given in the said table allows us draw the conclusion about the negative trend in the amount of industrial production. The worst value of 40.4% has the processing industry in its assets. We assume that the main reasons of such a situation are: 1) banks didn't resume the volumes of lending they had till 2008; 2) enterprises didn't recover from the financial crisis of 2008; 3) unfavorable weather conditions in 2012, with its droughty summer. Having in mind the fact that processing industry depends completely on agriculture, the third reason mentioned above seems to be significant enough despite its conventionality.

To see the precise difference of industrial production in 2012 and 2008, let's compare how the amount of industrial production changed as compared to that in 2007 (Table 2).

Table 2. Industrial Production Index (% to that in 2007), author's own calculations

Type of activity	2008	2009	2010	2011	2012
Industry	133.0	93.8	109.8	113.5	107.7
Processing industry	134.2	87.1	104.5	108.4	101.7
Processing Industry of Agro-industrial Complex	110.8	93.3	135.1	113.3	109.1

Analyzing Table 2 we see that the biggest change of the Industrial Production Index is noticed in 2010 in the processing industry of the agro-industrial complex. The least change of the said index was in 2009 in the same processing industry of the agroindustrial complex. In all the years we see the upward trend in the dynamics of the Industrial Production Index except 2009.

Conclusions and further studies prospects. In the 21st century the development of different technologies has rapidly accelerated if compared with the previous centuries. This fact influenced greatly changes in business activity, in business models and helped enterprises bring their activity to the new global level. Everything mentioned above gave companies the possibility to coordinate their activity, to exchange information in real time and as a result to plan their international activity. All this caused international capital flows which lead to the appearance of multinational and transnational corporations in many countries. In addition, trade liberalization and disappearance of trade barriers increased the volume of trade operations between countries. The factors mentioned above changed in turn the nature of competition. Competition became more dynamic. Competitiveness is an integral part of any competitive market. That's why the increase of competitiveness level is an important task for every market participant. There are many competitiveness indicators. Some of them evaluate only one field of the activity and don't show the whole situation. Others try to cover all the aspects of activity and therefore are so volumetric that one should have special software to be able to calculate them. To our mind, before trying to

improve this or that competitiveness indicator, one should pay attention at such basic indicators of activity of a country as the amount of its gross domestic product, inflation rate, foreign direct investment into the economy. Joining all the efforts to search the optimal ways to improve the indicators mentioned above, we shall improve the general level of competitiveness of any country.

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КНИЖКОВИЙ СВІТ



СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД НАЦІОНАЛЬНА АКАДЕМІЯ УПРАВЛІННЯ

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Сучасні проблеми розвитку національної економіки і шляхи їх розв'язання: Колективна наукова монографія / За наук. ред. д.е.н., проф. М.М. Єрмошенка. — К.: Національна академія управління, 2008. — 452 с. Ціна без доставки — 50 грн.

У монографії розглядаються теоретичні і практичні проблеми розвитку економіки України, пропонуються шляхи їх розв'язання з метою зростання її конкурентоспроможності та ефективності.

Буде корисною для аспірантів, викладачів вищих навчальних закладів, практичних працівників.