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## SWOT-ANALYSIS OF UKRAINE'S INTERNATIONAL COMPETITIVENESS

*The key approaches to measuring international competitiveness are overviewed, offering the SWOT-analysis of the strategic development of Ukraine's economy on the Global Competitiveness Index data. Various aspects and factors affecting the economy's development are determined.*

**Keywords:** competitiveness; GCI; Ukraine; intellectual capacity; SWOT-analysis.

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## SWOT-АНАЛІЗ МІЖНАРОДНОЇ КОНКУРЕНТОСПРОМОЖНОСТІ УКРАЇНИ

*У статті розглянуто основні підходи до визначення міжнародної конкурентоспроможності, запропоновано провести SWOT-аналіз для формування напрямків стратегічного розвитку економіки України на основі даних Індексу глобальної конкурентоспроможності. Визначено різні аспекти та чинники, які впливають на розвиток економіки.*

**Ключові слова:** конкурентоспроможність; GCI; Україна; інтелектуальний потенціал; SWOT-аналіз.

*Рис. 8. Літ. 11.*

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## SWOT-АНАЛИЗ МЕЖДУНАРОДНОЙ КОНКУРЕНТОСПОСОБНОСТИ УКРАИНЫ

*В статье рассмотрены основные подходы к определению международной конкурентоспособности, предложено провести SWOT-анализ для формирования направлений стратегического развития Украины на основе данных Индекса глобальной конкурентоспособности. Определены различные аспекты и факторы, влияющие на развитие экономики.*

**Ключевые слова:** конкурентоспособность; GCI; Украина; интеллектуальный потенциал; SWOT-анализ.

### Introduction

The development of Ukraine's economy under the current globalization conditions depends not only on its internal capacity and functioning of internal management mechanisms, but also on the potential of international cooperation of business entities and the international community assessment of business opportunities in the country. Essential for attracting foreign capital and economic growth is not only the objective assessment of statistical performance of an economy, but also the subjective aspect as the mental image of a country in the eyes of international community. These figures include international competitiveness rankings. They reflect both quantitative and qualitative assessment of international competitiveness of Ukraine and make it possible to determine the possibility of its development in the mid and long term. The identification of the key factors of strategic development of the national economy that affect the level of international competitiveness certainly is an urgent problem for scientific research, and that was the main goal of this paper.

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Today there are 3 approaches to compiling an integrated global competitiveness in the world: Global Competitiveness Index (GCI), Sustainable Competitiveness Index (SCI) (GCR, 2012), and the World Competitiveness Yearbook (WCY, 2012). Two first ratings have been developed by the World Economic Forum (WEF), and the third – by the International Institute for Management Development, Switzerland.

Most papers, devoted to the problem of international competitiveness of Ukraine, just state the low level of this index (Barylyuk, Kizyma, 2012; Torrisi, Uslu, 2010), or focus on a particular group of factors: innovative factors (Gryshchenko, 2011), or institutional (Gaidabrus, Kostyuchenko, 2009). Moreover, (Gaidabrus, Kostyuchenko, 2009) identified institutions as a separate group within the most problematic aspect of the Ukraine's economy competitiveness.

The article offers to use the data on the global competitiveness for the development of strategic directions of Ukraine. Such task was solved in (Smirnov et al., 2007), but the authors limited it to general conclusions. The SWOT-analysis methodology is proposed in this paper to identify the strongest and weakest aspects of the national economy and developing activities for its development.

#### **The main approaches to measuring international competitiveness**

The first index (GCI) is considered by the authors as the assessment of global competitiveness on the set of institutional measures and economic policies that ensure high rates of economic growth in the midterm (GCR, 2012). Rating GCI measures the ability of the national economy to achieve sustainable growth in the midterm approximately for next 5 years (Karminskiy et al., 2011).

The Sustainable Competitiveness Index (SCI) reflects the fact that some components of sustainability affect national productivity in the longer run but are not important in the short term. From this perspective, sustainable competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country while ensuring the ability of future generations to meet their own needs (GCR, 2012) and identify sustainable long-term level of this indicator.

The economists of the WEF had been developing the Current Competitiveness Index (CCI) several years ago instead SCI. The CCI rating was a measure of a set of institutional factors, market structures and economic policies that support high current level of well-being, and reflected the effectiveness of the current use of available resources in the economy and allowed researching the microeconomic foundations that determine the value of GDP per capita.

The authors of the Global Competitiveness Report (GCR) define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is the one that is likely to grow faster over time (GCR, 2012).

The WCY ranks and analyzes the possibility of nations to create an environment in which enterprises can provide their activities effectively. But enterprises operate in a national environment which enhances or hinders their ability to compete domestically or internationally and is covered by the WCY.

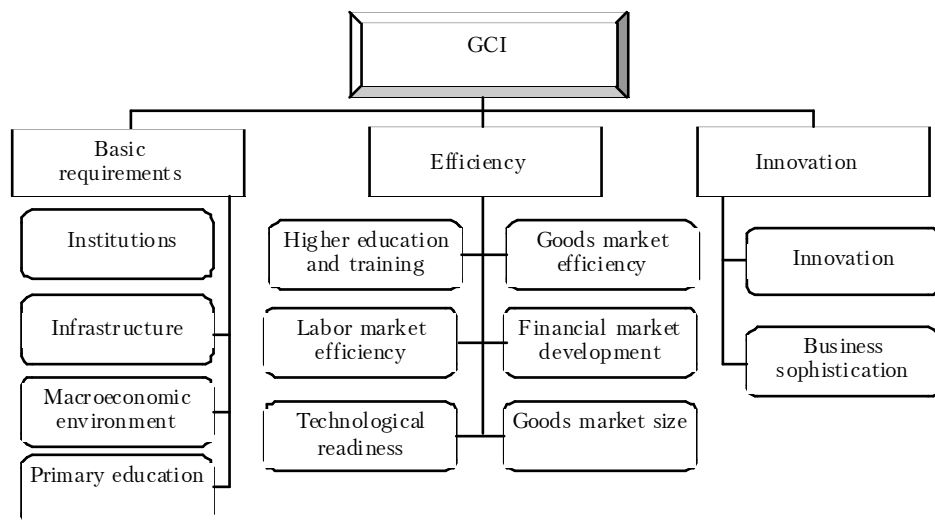
Based on the analysis made by leading scholars and by their own research, the methodology of the WCY thus divides the national environment into 4 main classes of factors: Economic performance, Government efficiency, Business efficiency, Infrastructure. Then each of these classes is divided into 5 subclasses, altogether, there are 20 subclasses, which comprise more than 300 criteria (WCY, 2012).

#### **Data source and methodology**

The basic source of the data for the analysis was the report of the WEF in 2012–2013 (GCR, 2012) and the data on the indicators of well-being around the world (The World Bank, 2013). We have taken the GCI as a basis for SWOT-analysis of the strategic development of Ukraine's economy.

The GCR concept of competitiveness involves static and dynamic components, statistical data and results from interviewing top managers. Although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its returns to investment, which is one of the key factors explaining economy's growth potential (GCR, 2012). In other words, a more competitive economy has more chances to sustain growth.

The GCI has a hierarchical structure. The first level consists of 3 parts: "Basic Requirements", "Efficiency" and "Innovation". Within each block there are 2 to 6 pillars. Competitiveness is calculated for each section based on 116 individual indicators, 38 of which represent the statistical data and 78 – the results of surveys (GCR, 2012). The structure of GCI is represented on Figure 1.

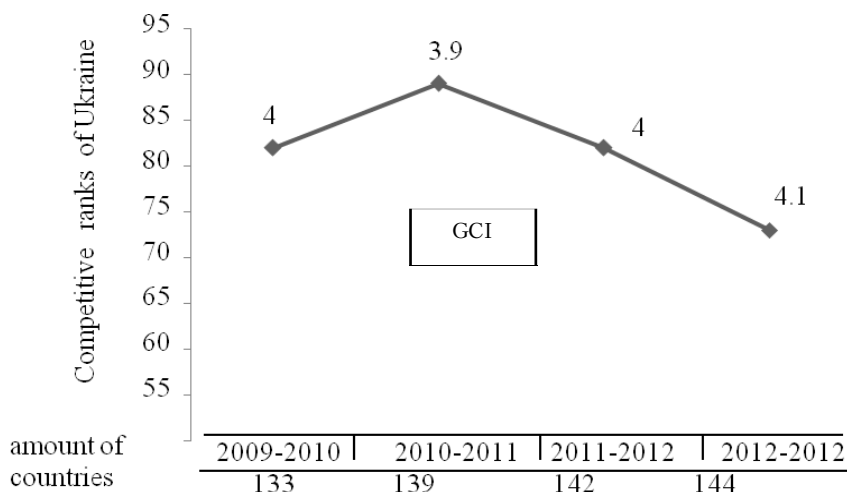


Source: Own elaborations based on (GCR, 2012).

**Figure 1. The hierarchical structure of GCI**

We used the GCI data for the period 2010–2013 (current government activities) for the SWOT-analysis of the strategic development of national economy.

It is interesting to note that according to the GCI ranking the international competitiveness of Ukraine permanently increases during 2009–2013 (see Figure 2). Does this mean that the government has chosen the right development strategy for Ukraine? We'll answer this question after the SWOT analysis.



Source: Own elaborations based on (GCR, 2010, 2012).

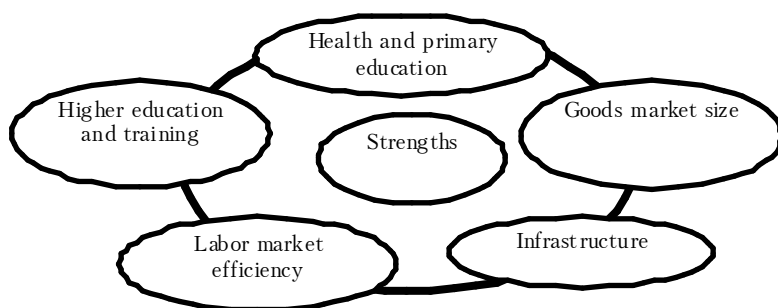
Figure 2. **Changes in the competitive ranks of Ukraine during 2009–2013**

SWOT methodology involves the analysis of the strategic plan, which is to group the factors and phenomena into 4 categories, namely Strengths, Weaknesses, Opportunities and Threats, associated with its implementation (Mayer, 2012).

The priority in the SWOT-analysis, as well as conducting other studies in the strategic analysis is the ability to think, ability to look at the object from different sides, evaluating them from outside, taking on the role of a potential or actual manager/customer, competitor or an observer. As a rule, the objects of SWOT-analysis are enterprises and corporations on the microeconomic level. In our research we used this methodology to analyze the macroeconomic factors of strategic development of Ukraine's economy. Therefore, we had to make several changes in the method of SWOT analysis.

#### Competitive advantages of Ukraine

Primarily the main competitive benefits of the national economy of Ukraine are high-level education and, consequently, highly skilled workers and efficient labor market. On the other hand, Ukraine has developed infrastructure and a significant size of markets (Figure 3).



Source: Own elaborations.

Figure 3. **Benefits of Ukraine's national economy**

The highest indicators of Ukraine concerning the quality of education: the quality of maths and science education – 34 rank (here and after a number means a rank of Ukraine on this indicator among 144 countries), the quality of secondary education – 44, tertiary education enrolment – 10. But the value of the last indicator means that people can't find work with a worthy salary and are in constant search for better life, profession, occupation, office position. Of course, it's benefits for investors but not for people.

The same we can say about the labor market efficiency: the presence of highly skilled workers, the practice of hiring and layoffs (16 rank), availability of scientists and engineers (25 rank) with low salaries and high performance (25 rank) are great benefits for foreign investors.

But, the characteristics of the labor market are more weaknesses rather than strengths in terms of ecomology paradigm (Tkach, 2008), which puts to the first place the interests of the Person. Therefore, the simple practice of hiring and layoffs means imperfect of labor market, lack of workers protection against arbitrary employer.

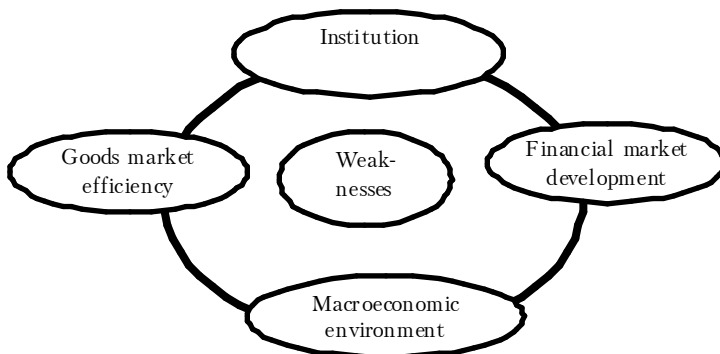
Undoubtedly, a significant advantage of Ukraine's economy is the large size of the goods market. For this indicator, Ukraine is rank 35th.

It looks attractive to investors, but yet they do not hurry to invest their capital in state production. For example, take the passenger car market, which the government has protected by very high rates of import duties and excise taxes despite all international agreements and contrary to the interests of consumers. At first view, under such conditions, investors would have to be in place to open car production in the state with a large market of cars. But this did not happen. So, there are other very important factors that nullify such an important competitive advantage as large size of goods market.

#### **Ukraine's competitive weaknesses analysys**

The weakest aspects of Ukraine's economy are institutions, low efficiency of commodity markets, macroeconomic environment and financial market development (see Figure 4).

The low efficiency of goods markets is one of the reasons that their large size does not increase the level of national competitive. The largest problems of goods market functionality are the burden of customs procedures, low effectiveness of anti-monopoly policy, extent and effects of taxation.



Source: Own elaborations.

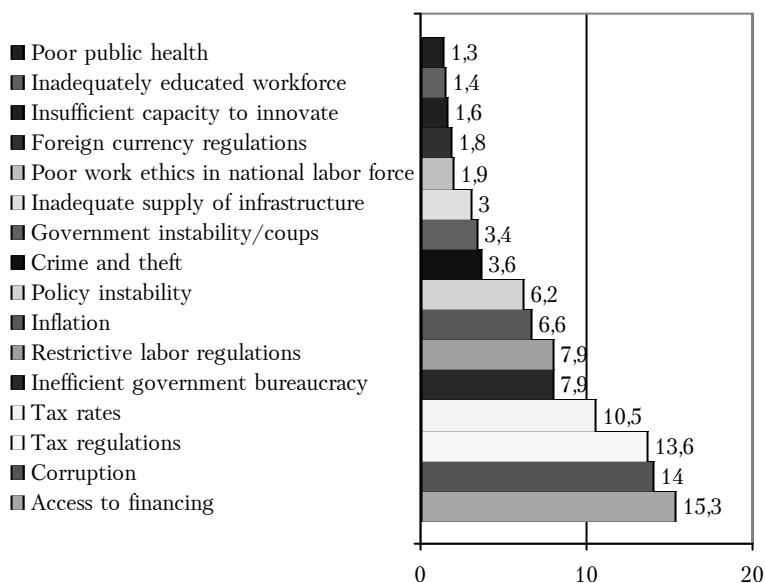
**Figure 4. The weaknesses of Ukraine's national economy**

The most problematic factors of macroeconomic environment are low level of gross national savings (17.5% of GDP), high inflation and country's credit rating.

The reasons for poor level of financial market development are low banks solvency, difficulties to get access to finance through local equity market, problems with availability and affordability of financial services.

The survey of top managers and executives of international companies determined several most problematic factors that prevent doing business in Ukraine. Figure 5 demonstrates the most problematic factors for doing business are the access to financing, corruption, tax regulations, tax rates, inefficient government bureaucracy and restrictive labor regulations.

However, the weakest aspect of Ukraine's economy is institutions. By most measures in this field, our country occupies the worst position among 144 countries (see Figure 6): protection of minority shareholders' interests (141th rank), efficiency of legal framework in settling disputes (141th), efficiency of legal framework in challenging regs (139th), the burden of government regulation (135th), property rights (134th), irregular payments and bribes (133th), wastefulness of government spending (128), judicial independence (124th), ethical behaviour of firms (124th), transparency of government policy-making (123th).



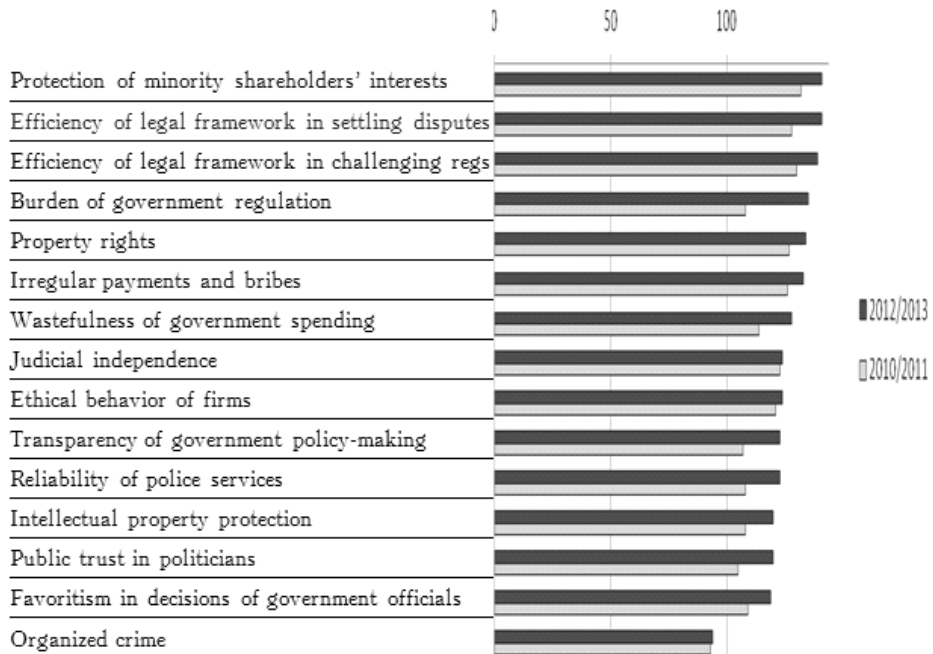
Source: Global Competitiveness Report (2012–2013).

**Figure 5. The most problematic factors for doing business**

What are really the reasons of such poor value of these indicators?

For these improvements we do not need significant financial or material resources or complex infrastructure or technological innovations or inventions. We believe that the real reason for this situation in Ukraine lays in the spiritual and mental sphere, primarily dependent on internal freedom, the desire of government to restore order in the country. But Ukrainian government is acting directly on the opposite.

As you can see from Figure 6, the value of all the indicators of institutional level worsened since 2010 till 2013, although the overall competitiveness index increased.



Source: Own elaborations based on (GCR, 2012).

**Figure 6. Institutional factors in spiritual and mental sphere (comparing 2013 to 2010)**

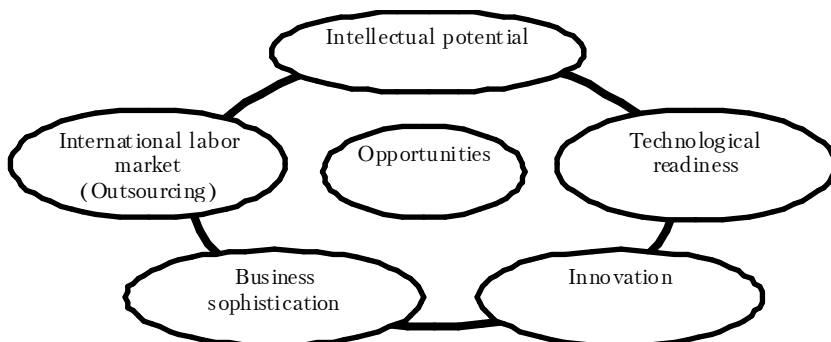
We can explain this fact that the situation did not arise as a result of the correct position of the government, but of the global after crisis trends. Due to the positive environmental changes at the global commodity market, export-oriented primary sector of economy of Ukraine has significantly influenced to increasing the value of GDP (The World Bank, 2013). As this figure affects the final value of the index of competitiveness, its overall value increased. But GCI Ukraine grew not because of, but rather in spite of the government actions, as clearly evidenced by the changes in institutional performance.

#### **The opportunities for increasing national competitiveness**

The opportunities for increasing of Ukraine's competitiveness are associated with high levels of education and training workers, as represented in Figure 7.

As noted by the GCR authors about Ukraine, "the good educational outcomes provide a basis for further developing the innovation capacity of the country (the 71st rank). Putting economic growth on a more stable footing in future will require Ukraine to address important challenges" (GCR, 2012).

The high level of intellectual capacity provides the possibility of introducing technological advancements and innovations in economy. One of the most promising areas of development should consider outsourcing at international labor markets.



Source: Own elaborations.

**Figure 7. Opportunities for increasing national competitiveness**

Ukraine will have to focus more strongly on developing capacities in R&D and business sophistication. Stronger R&D orientation of companies, easier access to venture capital, and intensified collaboration between universities and private sector would help the country to move towards a more future-oriented development path.

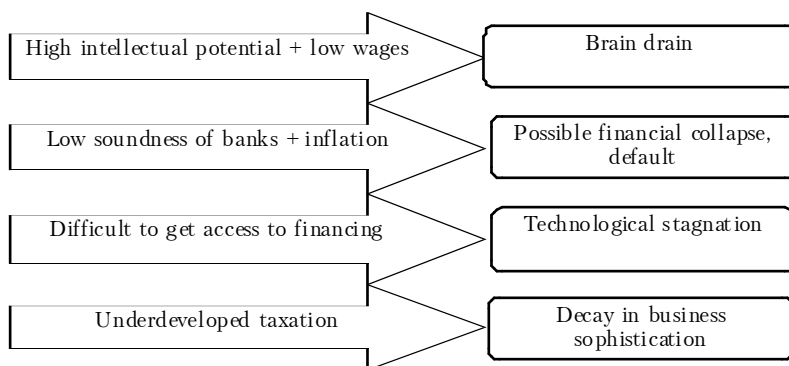
#### **The main threats for implementation of opportunities**

According to the laws of knowledge economy those opportunities and potential of Ukraine would have to ensure rapid economic growth, attracting foreign investments and sustained technological progress. The example of Ukraine can show that the intellectual capacity factor is not a significant factor in economic development.

The main threats for implementation the opportunities are represented in Figure 8.

High intellectual capacity together with low salaries lead to such situation, when the most skilled workers seek employment abroad. Therefore, Ukraine would lose its main competitive benefit.

Difficulties with access to financing and high rates of credit lead to technological stagnation. The reason for business sophistication decay is mostly the national taxation.



Source: Own elaboration.

**Figure 8. Threats to implementation of opportunities**

Low soundness of banks and high inflation level should make possible a financial collapse or default.



Undoubtedly, the intellectual component is important, but not a decisive factor in rather economic development. What actually defines and provides economic development than intellectual capital?

### Conclusions and discussion

High level of intellectual potential of Ukraine was hardly involved in economic mechanisms of the country, so this can not affect the economic growth of Ukraine. However, there is only one example of the positive use of intellectual potential: high-tech outsourcing activities in international software markets. What is the reason for the rapid growth of Ukrainian outsourcing companies? We believe that the reason for this is not only highly qualified workers, but also the fact that their activities go beyond the institutional mechanisms of Ukraine. It also led to rapid outsourcing activities development.

We assume that the main problem of Ukraine's strategic development is the poor level of institutional development. But really the reason for this situation lies in spiritual and mental fields. Ukraine has all physical, natural, intellectual prerequisites and potential for a technological breakthrough. It needs only one thing: the will and the desire of Ukrainian government to change the institutions.

To improve the situation the government must form appropriate institutions that will ensure smooth functioning of economic mechanisms. In other words, we need the full reengineering of all government aspects to conduct sustainable economic development of Ukraine.

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