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Ukraine's positions in international ratings evaluation as a factor of its competitiveness

Abstract

Introduction. The welfare of the country and its participation in the international division of labour, the level of integration into the world economy and ultimately its international competitiveness increasingly depend on success of transnational corporations' activities conducted in its economy.

Purpose. To study the major international rankings and analyze the position of Ukraine in them which will make it possible to conduct a research of various influence groups on the country's competitiveness and economy.

Research methods. The research is based on general scientific methods such as the comparison method to estimate the Human Development Index; the method of statistical analysis and synthesis to calculate the Global Competitiveness Index; the deduction and hypothetical methods to ground economic and social spheres of competitiveness.

Research results. The most essential macroeconomic indicators, which were used to make the most popular international rankings, are revealed in the article. Analysis of these ratings gave the opportunity to follow the position of Ukraine, as well as to assess the real state of its economic indices as competitive factors. In particular, Ukraine should pay close attention to the strengthening of its financial markets and reduce the dependence of the national economy from export-oriented industries in order to create favourable conditions for the country's competitiveness.

Scientific novelty of the research results. A research of Ukraine's competitiveness based on international rankings analysis has been conducted. The research is based on such rankings as the Ease of Doing Business Index, the Corruption Perceptions Index, the Human Development Index and the Global Countries Competitiveness Rating.

The practical significance of the research results. International organizations and institutions' ratings allow to see the real situation in the country, to identify its weaknesses and find ways to improve the country's competitiveness.

Conclusions. Ratings of international agencies and institutions clearly show the actual state of country's economics and finance as well as social picture. It is a reliable external source for analyzing strong and weak aspects of development. Our research of Ukraine's positions in different international ratings has shown that the Government should create policies oriented at strengthening of financial markets and dependence of the national economy from export-oriented industries reduction which will create more favourable conditions for corporate capital performance and decrease unproductive capital export from the country.

Keywords: Rating; Competitiveness; Position; Factor; Index

JEL Classification: F14; O33

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Оцінка позицій України в міжнародних рейтингах як фактор її конкурентоспроможності

Анотація. У статті розглянуто найсуттєвіші макроекономічні показники, на основі аналізу яких складено найпопулярніші міжнародні рейтинги. Аналіз цих рейтингів дав можливість прослідкувати позицію України, а також оцінити реальний стан її економічних показників як факторів конкурентоспроможності. Зокрема, Україні слід приділити значну увагу зміцненню фінансових ринків та зменшити залежність національної економіки від експорту орієнтованих галузей для того, щоб створити сприятливі умови для конкурентоспроможності країни.

Ключові слова: рейтинг; конкурентоспроможність; позиція; фактор; індекс.

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Оценка позиций Украины в международных рейтингах как фактор её конкурентоспособности

Аннотация. В статье рассмотрены самые существенные макроэкономические показатели, на основе анализа которых составлены самые популярные международные рейтинги. Анализ этих рейтингов дал возможность проследить позицию Украины, а также оценить реальное состояние ее экономических показателей как факторов конкурентоспособности. В частности, Украине следует уделить значительное внимание укреплению финансовых рынков и уменьшить зависимость национальной экономики от экспортоориентированных отраслей, чтобы создать благоприятные условия для конкурентоспособности страны.

Ключевые слова: рейтинг; конкурентоспособность; позиция; фактор; индекс.

Introduction. One of the defining features of contemporary development of international business is the conversion of multinational corporations, or transnational companies (hereinafter – TNC), on the leading subjects in international economic relations. The welfare of the country and its participation in the international division of labour, the level of integration into the world economy and ultimately its international competitiveness increasingly depend on the success of TNC's activities conducted in its economy.

There are many foreign transnational corporations in Ukraine, but we still do not have the domestic ones that could compete with the global giants. Therefore, it is an urgent issue to create Ukrainian companies and adjust them to the UN terms. It is necessary to investigate the conditions needed for corporate capital functioning in the economy of Ukraine.

Brief Literature Review. Foreign scientists have made an important contribution to the study of the economic transnationalization. This problem has also been advanced by such Ukrainian scientists as O. Makarov (2009) [3], O. Shpykulyak, V. Rusan, L. Kurylo (2010) [7], M. Malik (2007) [4], S. Nesterenko (2012) [5], V. Andersen (2006) [1], V. Parahina (2014) [6], S. Kvasha and O. Luka (2003) [2], I. Cherleniak and O. Kurei (2013) [11] and other scientists. However, it should be noted that the study of Ukraine's competitiveness based on the analysis of international ratings has not been done yet.

Purpose of the study is to analyze the main international rankings, including Ukraine positioning in them. This will make it possible to investigate the changes in different impact groups with relation to the corporate capital functioning in the economy of Ukraine.

Result. Globalization involves close collaboration with many subjects of international relations, thus much attention is paid to reliability of transnational corporations. International ratings are intended to show the real situation in the country. They evaluate various aspects besides economic issues. No investor, even a very experienced one, would be able to scrutinize financial documents of companies and governments all around the world. Therefore, a special attention in choosing an investee is paid to the evaluation done by rating agencies. Taking into account different ratings, we can make decisions related to a careful study of a country's market.

The most famous and popular international rankings will be taken into consideration while analyzing the positions of Ukraine. These ratings are based on the analysis of the most significant macroeconomic indicators (M. Makarov, 2009) [3].

Therefore, to determine the attractiveness of corporate capital placing it is necessary to analyze the following ratings: the Ease of Doing Business Index, the Global Competitiveness Report, the Corruption Perceptions Index and the Human Potential Development Index.

So, the Ease of Doing Business Index ranks countries according to their assistance in doing business. Economies are ranked on their ease of doing business from 1 to 189. The first place is the highest position which means that the regulatory

climate in the country is favorable. The index is based on the average of 10 subindices, each of which has equal weight.

In 2011, Ukraine took the 145th place in this ranking, and in 2013 – 140th. Experts predict that by the end of 2015 Ukraine's position will have moved up to the 128 place. However, the improvement of the overall results does not mean improvement on all levels. The main components and Ukraine's positions in the ranking are shown in Table 1.

We separately consider the dynamics of Ukraine's positions in the Ease of Doing Business Ranking by the Paying Taxes subindex in 2011-2014 (Table 2).

The Ease of Doing Business Ranking takes into consideration three main factors in the taxation sphere: 1) the number of payments; 2) the total tax rate; 3) time required to administer taxes in accordance with the applicable law.

In 2013, Ukraine progressed in the Ease of Doing Business ranking. Due to Ukraine had a higher position in it: the country moved to 165th position – 18 places up from 181st. Ukraine took the 6th place among European and Central Asian countries which showed the most significant improvement of the tax system over the last year. Ukraine was noted in the report along with countries such as Belarus, Georgia, China, Turkey and Argentina.

Tab. 1: Doing Business data for Ukraine

Criteria	2013	2014	Change in rank
Starting a business	50	47	-3
Dealing with construction	186	41	+145
Registering property	158	97	-61
Getting credit	24	13	+11
Protecting investors	127	128	-1
Paying taxes	168	164	+4
Trading across borders	148	148	=
Enforcing contracts	45	45	=
Resolving insolvency	157	162	-5

Source: Made by the Authors on the basis of Doing Business, 2015.

Tab. 2: Dynamics of the Country Ranking Positions in the Ease of Doing Business Ranking in 2011-2014 by the Paying Taxes Subindex

Country	Doing Business Paying taxes (rank)				Change 2014 to 2011
	2011	2012	2013	2014	
United Arab Emirates	5	7	1	1	0
Saudi Arabia	6	10	3	3	0
China	3	3	4	4	0
Singapore	4	4	5	5	0
Canada	10	8	8	8	0
Russian Federation	105	105	64	56	8
USA	62	72	69	64	5
Germany	88	89	72	89	-17
Belarus	183	156	129	133	-4
Ukraine	181	181	165	164	1
Tajikistan	165	168	175	178	-3

Source: Made by the Authors on the basis of Doing Business, 2015.

The World Economic Forum publishes the Global Competitiveness Report. The Global Competitiveness Index is based on 12 competitiveness indicators, characterizing the index of the world countries which are at different stages of economic development. Each component is rated from 1 to 7, where 7 is the best indicator. We give general indicators of Ukraine for 2008-2014 and the latest figures for each component in Table 3.

Rating 2014-2015 is based on the results of a survey of 14 thousand corporate executives in 144 countries. According to the results, in 2014-2015 Ukraine took the 76th place. In the last year's index Ukraine ranked the 84th on the Global Competitiveness Index out of 148 countries. Then the country dropped by 11 positions in the ranking due to bureaucratism and lack of transparency in the institutional structure of the country. In 2010-2011 it took the 89th place, and in 2008-2009 – the 72nd. We can follow the negative tendency though there are small improvements connected with the government's confirmation of Ukraine's course toward integration into the European Union. The conflict in the eastern part of the country and in Crimea did not affect the results of states global competitiveness ranking, as it was drafted before the aggravation of the situation, though we are sure that the consequences will be felt in the future.

Earlier, the International Monetary Fund made assumptions that military action in Eastern Ukraine would continue until the end of 2014 and take place in 2015. The Fund worsened the

Tab. 3: Ukraine Global Competitiveness Index

	Position in rating	Total points (1-7)
GCI2014-2015	76	4.14
GCI2012-2013	84	4.0
GCI2010-2011	89	3.9
GCI2009-2010	83	4.0
GCI2008-2009	72	4.1
GCI2007-2008	71	4.0
Basic requirements	87	4.36
1. Institutions	130	2.98
2. Appropriate infrastructure	68	4.16
3. A stable economic framework	105	4.14
4. Good health and primary education	43	6.14
Indicators of efficiency	67	4.11
5. Higher education and training	40	4.93
6. Efficient goods markets	112	3.99
7. Efficient labour markets	80	4.12
8. Developed financial markets	107	3.54
9. The ability to harness the benefits of existing technologies	85	3.5
10. Market size	38	4.58
Innovations and competitiveness	92	3.41
11. Business sophistication	99	3.66
12. Innovations	81	3.16

Source: Made by the Authors based at The Global Competitiveness Report, 2014-2015

forecast for economic decline in Ukraine to 7.25% in 2014 compared with earlier projections of 6.5%.

Improvements in the GCI reflect positive tendencies. It is clear that at the time of conflict escalating the prior task is to restore peace in Eastern Ukraine. This is certainly the highest priority for the country. Thereupon, far-reaching reforms should be provided to exit from the economic crisis. Under the reforms we mean «major repairs» of the institutional framework, measures to reduce the dominance of large companies in the domestic markets. This raises the question of market efficiency and competitiveness. Financial markets strengthening will stabilize the economy and allow Ukraine to take advantage of the numerous competitiveness strengths. Ukraine maintains very good positions in relation to some indicators such as higher education and market size, but the state of other components moves the country down to the 84th position. Our country is among the countries developing at the expense of efficiency (efficiency driven economies). According to the annual survey conducted by the World Economic Forum, there exist factors hindering business and development in Ukraine (see Figure).

According to the evaluation, Ukraine is on the transition stage from the development through factor advantages to the development due to efficiency of the potential use. In other words, the national economy still operates mainly through extensive development. It is explained by the priority value of Ukrainian traditional forms of economic activity, small investment and weak public support for high-tech industries and those which create high added value (Andersen V. D, 2006) [1].

The Corruption Perceptions Index by Transparency International is one of the most important country rankings related to their investment attractiveness, creditworthiness and perception in the world.

Foreign investors and analytical structures, close to the developed countries governments, focus on the Corruption Perceptions Index as one of the most important indicators. It is used in political science and econometric studies to characterize the efficiency of public administration, economic development and democracy level. In fact, the index divides the country geopolitically into the South and the North. This trend is determined not only by a vector of corruption perception, but also by social and economic frameworks. However, the general nature of the indicator makes it impossible to fix various corruption cases and give detailed advice on how to counteract this phenomenon (Kvasha, S., & Luka, O., 2003 [2]; Malik, M., & Nuzhna, O., 2007 [4]).

The index is based on several independent surveys involving international financial and human rights experts from the Asian and African Development Banks, the World Bank and the international organization *Freedom House*. The index is a rating from 0 (the highest level of corruption) to 10 (no corruption).

In 2013 Ukraine took 144th place with an average of 2.5 out of 10. It should be noted that the situation may deteriorate again.

In the ranking Ukraine shares its position with Cameroon, the Central African Republic, Iran, Nigeria and Papua New Guinea. According to this index Ukraine returned to the level of 2008, that is certainly bad for the modern investment processes, as Western companies prefer transparent economies, where they can conduct business honestly.

There is an anti-corruption programme and there exist measures of corruption prevention in Ukraine, but we still have very high level of it. The Transparency International's Annual Report shows this problem in all the CIS countries. Such countries as Tajikistan, Turkmenistan and Uzbekistan were in the worst positions in the ranking (150th, 154th and 168th places).

The next ranking we consider is the Human Development Index (HDI). It is an integral index calculated annually for inter-country comparison and living standards, literacy, education and longevity measurement as key characteristics of human potential in the study area. The UN has referred to this index since 1993 in its annual reports on human potential development.

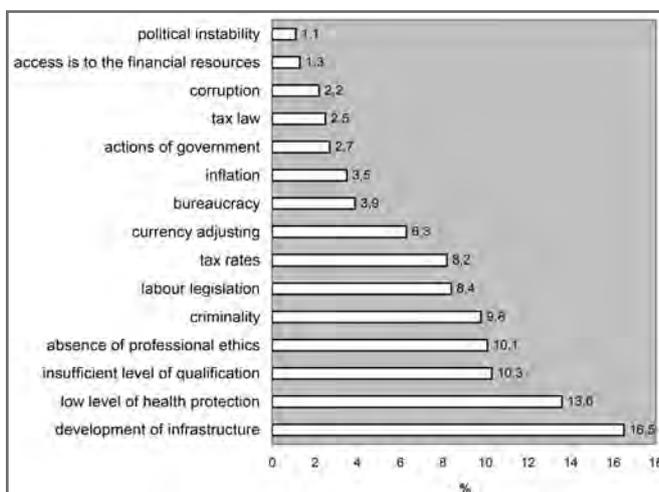


Figure: Factors hindering business development in Ukraine, % respondents
Source: Made by the Authors based at The Global Competitiveness Report, 2014-2015

The HDI represents the following three types of indicators are taken into account:

- the average life expectancy at birth, as an index of population and longevity;
- the adult literacy rate (with 2/3 weighting) and the combined primary, secondary and tertiary gross enrolment ratio (with 1/3 weighting);
- standard of living, as indicated by the natural logarithm of gross domestic product per capita at purchasing power parity in US dollars.

The value of the HDI for Ukraine in 2012 was 0.740, which is the 78th position of our country with the rank of 187. We shared the position with the former Yugoslav Republic of Macedonia.

In 2013, Ukraine had 0.734 index (Tab. 4) and the 83rd position out of 197 countries.

If you follow the dynamics of Ukraine's Human Development Index from 1990 to 2012, we can observe its increase from 0.714 to 0.740, i.e. an average annual increase of about 0.2%.

Here are some other ratings made by well-known organizations and institutions, where Ukraine can be found. They are very important as they provide an independent assessment of the economic state of the country and reflect the perception of our country in the international arena. These ratings are widely used by private investors, international organizations and large transnational corporations in assessing the macroeconomic conditions of doing business (Nesterenko, S. A., 2012 [5]; Parahina, V. N., 2014 [6]; Shpykulyak, O. H. et al., 2010 [7]).

The Heritage Foundation, an American think-tank based in Washington D.C. has noted progress in achieving five economic freedoms in Ukraine over the past year. The total score of economic freedom in Ukraine is 49.3 that defines 155th place in the Economic Freedom Rating 2014 (tab. 5). The index rose by 3 points higher than last year with a noticeable increase of 5 out of 10 economic freedoms, including freedom of business, costs and monetary control.

The International Property Rights Index is published annually by Americans for Tax Reforms Property Right Alliance. This index determines where intellectual property rights are the most protected. In International Property Rights Index includes three components: legal and political environment, protection of physical property rights and intellectual property rights. Categories of intellectual property right include such subcategories as: intellectual property, patent protection and piracy level. The country gets from 0 to 10 points for each criterion.

In 2014 Ukraine occupied the 95th position out of 130 countries in the intellectual property right category. The total score of Ukraine is 4.2. According to the intellectual property protection subcategory Ukraine takes the 110th place, for the level of protection against intellectual piracy – the 97th. The situation related to the intellectual property protection in Ukraine has not changed for the past 3 years. In 2011 a total score has also reached 4.2, and in 2010 – 3.9. It should be noted that Ukraine remains far behind such countries as Finland or Sweden, which have an overall rating of 8.5 or 8.6.

Another international organization established to promote positive changes in the world economy is the World Economic Forum, which is traditionally held in Davos, Switzerland. Leading business, political, academic and other leaders are involved into the development of appropriate recommendations, development of global, regional and branch programs (Cherleniak, I. I., & Kurel, O. A., 2013 [11]).

The World Economic Forum has published its financial sustainability report, where Ukraine took the last place among 55 countries.

Conclusions. Analyzing the number of ratings we can note that the position of Ukraine is decreased due to the impact of the global financial crisis, which greatly influenced the export-oriented economy through national currency devaluation. Falling Ukraine's ratings causes reduction of its investment attractiveness and reduce future flow of foreign investment.

In addition, rankings of international agencies and institutions give us a clear vision of the real situation in the country

Tab. 4: Comparative IRL table of Ukraine and other countries in 2013

Country's ranking	Country	IRL	Life Expectancy	Average education duration
57	Russian Federation	0.778	68.0	11.7
70	Kazakhstan	0.757	66.5	10.4
76	Azerbaijan	0.747	70.8	11.2
83	Ukraine	0.734	68.6	11.3
86	Bosnia and Herzegovina	0.731	76.4	8.3

Source: Made by the authors based on United Nations Development Programme. Human Development Report, 2014

Tab. 5: Ukraine's positions in the International rating in 2014

Organization made the rating	Rating's name	Ukraine's place	Total number of countries
The Heritage Foundation (2014)	Economic Freedom Rating	155	185
World Economic Forum (Davos)	Financial Sustainability Rating	55	55
Americans for Tax Reforms Property Right Alliance	Rating of Property Rights Defence	110	130

Source: Made by the Author based at the United Nations Development Programme. Human Development Report, 2014

and help to identify its weaknesses. In particular, Ukraine should pay close attention to the strengthening of financial markets and reduce the dependence of the national economy from export-oriented industries in order to create favourable conditions for corporate capital functioning.

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