

# CHAPTER 1

## CURRENT TRENDS IN ECONOMIC DEVELOPMENT

### COMPETITIVENESS OF UKRAINE'S ECONOMY UNDER THE CONDITIONS OF GLOBAL INSTABILITY

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**Abstract.** The academic paper is devoted to investigation of the competitiveness of Ukraine's economy under the conditions of global instability. The purpose of the research lies in identifying key factors contributing to the competitiveness of the economy and, conversely, inhibiting it. In order to achieve the purpose outlined, the following methods have been used in the research, namely: analysis and synthesis of information, comparison and generalization. Along with this, the V-U-L method has been used in order to predict the tendencies of economy revitalization after the pandemic. SWOT analysis has been carried out for generalizing the information received. The relevance of the research is underpinned by the realities of global instability due to COVID-19, which have wrecked the economies of almost all world countries. It becomes more and more difficult for countries to compete in such conditions; consequently, in order to at least maintain the positions in the market, it is necessary to apply modern production and management technologies. Herewith, in order to improve the competitive positions, advanced and innovative technologies should be applied, the potential of which in Ukraine is quite high, but the real state of affairs leaves much to be desired. At the same time, the investigation of the report of World Economic Forum was conducted for assessing the competitiveness of Ukraine's economy, according to which the rating place of Ukraine among other economies of the world was established. The crucial indicators influencing competitiveness are as follows: principal, reinforcing and innovative. SWOT-analysis of Ukraine's competitiveness was conducted in the research; strengths, weaknesses, prospects and threats were identified. In order to improve the level of competitiveness, it is necessary to develop innovative industries, to support them, which, as a result, will have a positive effect on the commodities markets. Based on the results of the research conducted, generalizations have been made that will make it possible to ensure the development of Ukraine under the conditions of global instability.

**Keywords:** globalization, instability, competitiveness of economy, competitiveness index, COVID-19 pandemic.

**JEL Classification:** E01, F20, O10

**Formulas:** 0; **fig.:** 5; **tabl.:** 2; **bibl.:** 16

**Introduction.** The development of the world economy at the beginning of the XX-XXI century is characterized by globalization processes increasing competition between states. In order to maintain the positions in the market, states should carry out numerous measures aimed not only at increasing production volumes, but also at

ensuring that the state of the economy meets the expectations and needs of the population and the society, as well as global trends and integration aspirations. Such approaches to the development of the country always contribute to increasing the country's competitive position and at the same time ensuring the growth of the population's social standards, improvement of the business environment, etc.

However, it is quite difficult to maintain a competitive position (without mentioning strengthening) under the conditions of changing globalization environment, especially for developing countries, among which Ukraine is. In order to maintain a competitive position in the market, it is necessary to apply modern technologies that will make it possible to ensure the development and growth of the economy in accordance with the overall global development. In turn, ensuring the growth of competitive positions of the state requires the use of innovative, the latest technologies and fundamental realignment in the approach towards state governance.

Interstate competition is ensured by numerous factors, each of which can be regulated and changed in accordance with state policy. For this reason, state policy should be aimed at identifying weaknesses in state governance and determining directions and prospects, taking into account the global market's opportunities. Nowadays, under circumstances when all countries are suffering from the financial crisis caused by the COVID-19 pandemic, only those states that competently organize their activities will be able to quickly respond to challenges and gain competitive advantages.

**Literature review.** The issue of Ukraine's competitiveness has been studied by various domestic and foreign scientists, namely: Porter, M. (2001), Melnyk, A. (2011), Babich, L. (2010) Mocherny, S. (2001), Kvasnyuk B. et al. (2006), Bazilyuk, Ya. (2002), Kizim, M. (2010) Gubsky, B. (1998) et al.

The matter of discussion has been widely studied by international scholars, who have paid sufficient attention to strengthening the competitive position of national economies in accordance with global development processes. In the course of the research, statistical information from open sources, in particular, World Economic Forum and Ministry of Economy of Ukraine, has been analyzed, which make it possible to identify trends in the development of countries as well as to foresee prospects and threats in the coming years.

Despite the availability of scientific investigations on the formation of the economies' competitiveness, their functioning in the context of the global crisis connected with the COVID-19 pandemic remains insufficiently studied. The issues of the present time related to overcoming the crisis and ensuring the country's sustainable development, remain relevant and uncertain. This particular matter of discussion constitutes the novelty of the scientific research, which involves defining the determinants of competitiveness and searching for relevant opportunities that will make it possible to improve social development while ensuring an appropriate level of state governance.

**Aims.** The purpose of the research lies in defining the determinants of strengthening the competitiveness of the Ukrainian economy and factors, on the contrary, inhibiting it.

**Methods.** The methods of economic and statistical analysis, analysis and synthesis, formalization, axiomatic method, system analysis have been applied in the course of studying the matter of discussion. Graphic research methods have been used to obviously understand the problems and trends of economic development. The VUL method has been used (McKinsey, 2020) in order to determine the impact of global instability on economic development; it is based on the following tendencies of economy revitalization, namely:

V-shaped: this is a classic reflection of the shock that occurs due to halting of production for certain reasons. Revitalization is fast, rapid and it can often override the negative results of work that have arisen at the time of “shock”. This is the scenario of China’s development, which in 2020 remained with a positive GDP growth.

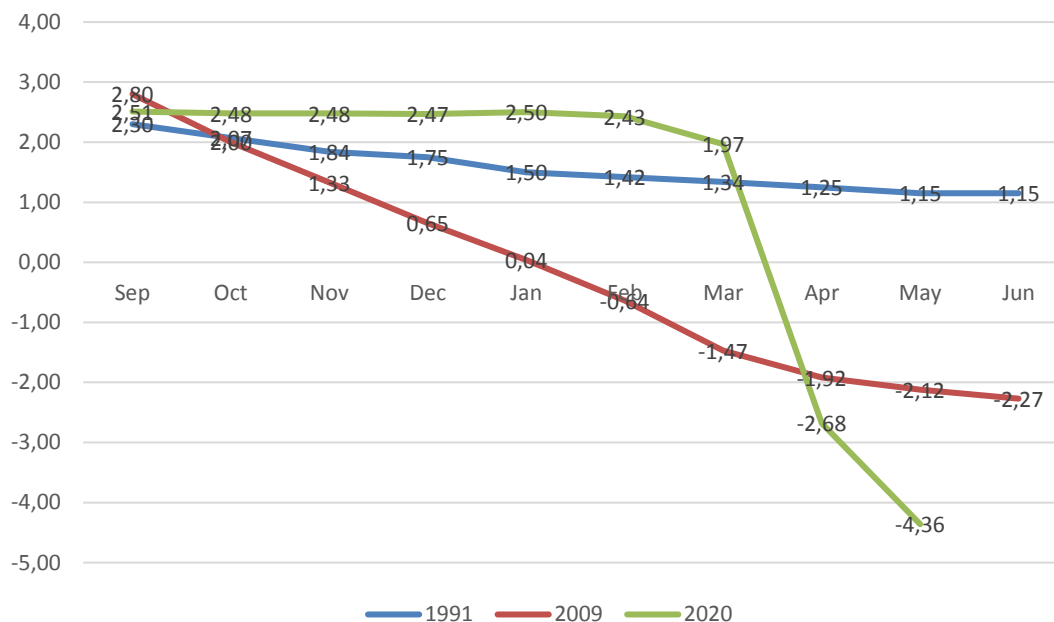
U-shaped: the shock persists, and although the original path of growth is restored, there is some permanent loss of production; there will be rapid economy revitalization after some time. Currently, it is an option for the development of the economies of Europe and the United States.

L-shaped: this scenario is very bad compared to V and U. In order for this scenario to be implemented, COVID-19 must inflict significant structural damage, that is, cause irreparable damage to the economy, which will be very difficult to restore. However, experts and specialists do not consider such an option for economic development in the post-pandemic period.

In order to display predictions and prospects of economic development, the results of a survey conducted by Ernst & Young Global Limited are used; the company has organized a business survey on how their employees predict the scenario of economic development.

**Results.** Globalization processes are connected with the intensification of relations between the national economies of different countries, covering all aspects of the economic life of different world countries. Interstate financial and credit as well as trade transactions contribute to the expansion of international capital movements, intensification of labor migration processes, and growth of international scientific and technical relations. This process began in the second half of the twentieth century; currently, it is especially active, due to revolutionary inventions in the social, scientific and technical, transport, communication and information spheres. Nowadays, globalization covers various areas of the world economy; it is based on economic and financial processes, constituting the foundation for developing processes in other areas (Melnyk, 2011). The current globalization degree, at which the speed and influence power of each component of the economic and social system is gaining insane proportions, has become a stage of planetary instability. The instability of any system provokes turbulence, which always means increasing risks and uncertainty for economic subjects of any planetary level. The world economy as a whole pass through a period of permanent turbulence, which involves leaving the rates of the economic cyclicity or patterns of economic development from the classical definition and traditional parameters.

The scale and geographic scope of the current global crisis is unprecedented and unequalled. The percentage of countries experiencing a recession is higher than ever in human history – 92, 3%. In the times of the Great Depression, this percentage reached 83, 8%, and during the global financial crisis of 2007-2009 - up to 61, 2%.



**Figure 1. Global GDP growth (in%) during the last recessions of 1991, 2009 and 2020**

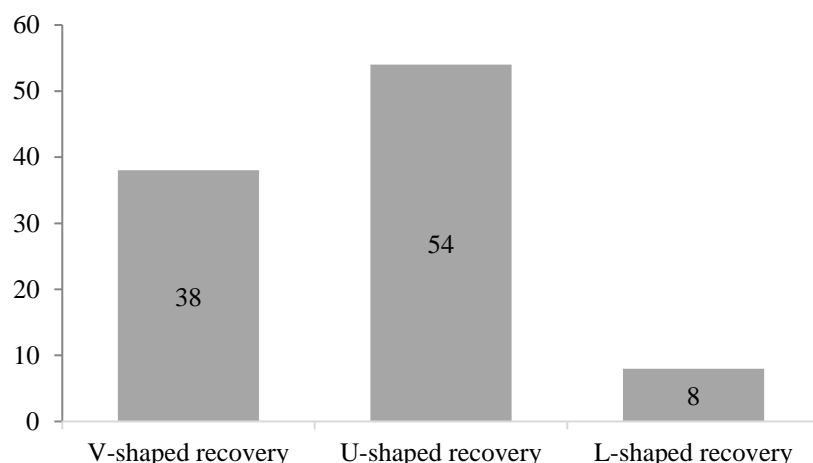
Source: World Bank (2020)

The pandemic shock has put all countries of the world towards necessity to balance between measures to protect human health, overcome the recession and support financial stability under the conditions of global instability.

The conditions for the development of the world economy are progressing in such a way that only a relatively small group of countries will be able to overcome the crisis beyond the “V” - shaped scenario in case of attenuation of the coronavirus pandemic. For other states, “L” - shaped scenario is still the most probable – that is, a similar scenario with a vague prospect of reaching a stable GDP dynamics and high employment of the population (Figure 2).

At the same time, taking into account that previous pandemics and epidemics have a V-shaped revitalization, apart from that, labor migration will be especially active and economic development will be quite rapid after opening of borders. This is the viewpoint of 38% of managers of large companies (Figure 2); most entrepreneurs in the world still hope for a “U” - shaped way out of the economic crisis.

On the basis of the results of 2019, at the end of which the first signs of mass infection with Coronavirus infection appeared, the growth rate of the world economy was at the lowest level for the entire period after the end of the global financial crisis. The necessity for social distancing has led to the labor market deformation, especially in the sphere of small and medium-sized businesses.



**Figure 2. Business expectations for economic recovery in the post - COVID period**

Source: Krouskos, S. (2020)

According to IMF estimates, as of early July 2020, global production losses due to the pandemic shock in two years (2020 - 2021) will amount to more than 12 trillion USD. In absolute terms, the bulk of these losses will be in the countries with the largest GDP. It was expected that by the end of 2020, among the leading countries of the world economy, only China would not only compensate for its losses, but it would also achieve an increase in GDP. Based on the results of 2020, China ensured GDP growth of 2, 27 percent (WEO, 2021).

Global instability is one of the negative features of globalization; however, it is followed by equally important problems, in particular: stratification of the society, rapid redistribution of resources; the growing influence of TNCs and other influential economic groups that can benefit from the crisis and change the permanent global competitive division. In order to avoid the influence of such factors on the national economy of the country, when entering the system of global economic relations, an objective necessity to increase its competitiveness is generated.

The concept of competitiveness can be perceived differently by various scientists and institutions. It is important to consider approaches to defining the competitiveness of the country's economy. Let's consider the basic ones in Table 1.

Therefore, it is possible to identify key indicators of the country's competitiveness, namely: this is an indicator of gross output per capita, a stable production level of competitive products, that is, a steady GDP growth, the income level (and, accordingly, consumption) of the population, an increase in labor productivity, etc.

Thus, national competitiveness can be defined as the country's ability to provide such conditions in which enterprises can form stable economic growth, long-term profitability and providing employment.

In modern scientific literature, there are several approaches to defining competitiveness, which are based on qualitative and quantitative methods of analysis. The application of quantitative indicators is based on using mathematical and

statistical methods of analysis, which are further supplemented by qualitative indicators, ensuring the strengthening of competitiveness (Babich, 2010).

**Table 1. The principal approaches to defining the competitiveness of the national economy**

<b>Author</b>	<b>Definition</b>
World Economic Forum (2020)	The ability to achieve high growth rates of GDP per capita
Institute of Management and Development (2021)	Potential and real opportunity to design, manufacture and sell goods that are more attractive to consumers in terms of price and non-price characteristics
Economic encyclopedia (Shtalman, Dryakhlov, Hartman, 2021)	The ability of one country's economy to ensure sufficient use of national resources, increase economic productivity and a high living standard compared to other countries
Kvasnyuk B. (2006)	The set of factors inherent to a particular country that are capable of providing the supply of goods and services, their manufacture and sale in the context of applying innovative technologies, a free market and growing incomes of the population
Bazyliuk, Ya. (2002)	The ability of the economic system to ensure social-economic optimality, taking into account the influence of factors of the external and internal environment
Porter M. (2001)	The ability of the country to maintain high growth and employment rates over a long period
Shvydanenko O. (2007)	The ability of the country's environment to provide the population with a sufficient level of consumption in order to meet global supply, and, at the same time, the ability of economic entities to maintain a stable position in meeting global demand
Kizim M. (2010)	A feature of the economic system based on the global division of labor and international exchange
Gubsky B. (1998)	The ability to optimally implement competitive advantages, focusing on increasing labor productivity

*Source: compiled by the authors*

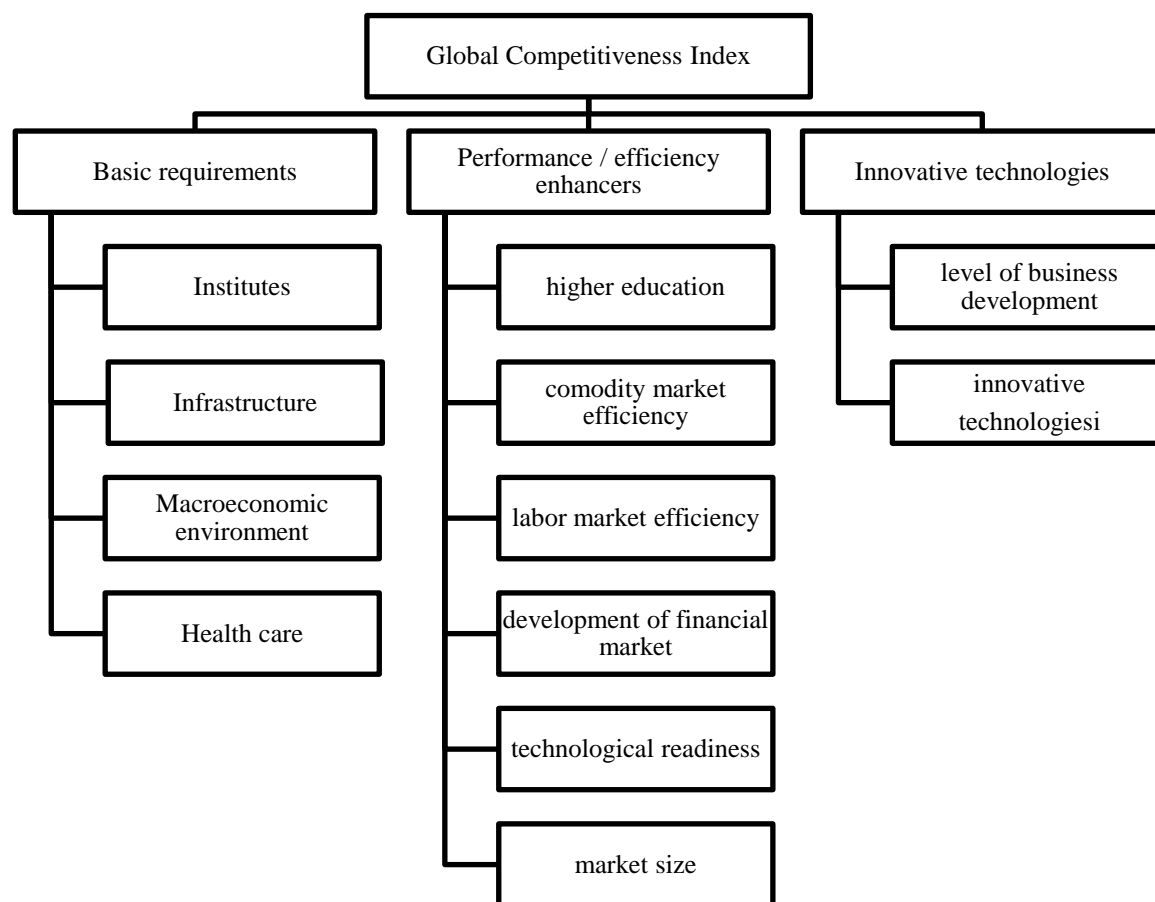
In order to assess the competitiveness level of a country, methods developed by the International Institute for Management Development, World Economic Forum and the Institute for Strategy and Competitiveness at Harvard University are increasingly being applied. Each of the institutional organizations uses its own research methods and evaluation criteria. Each organization creates a rating of countries in the world in terms of competitiveness. However, the methodology of World Economic Forum is most often used as a generalized methodology, according to which it is determined as follows:

1) the index of global competitiveness (alternative name: competitiveness growth index, country innovation susceptibility index);

2) Business Competitiveness Index - BCI, the main purpose of which lies in determining the productivity and efficiency of industries and enterprises.

The reports of World Economic Forum are published annually in "The Global Competitiveness Report. World Economic Forum" (2019). The assessment according to the rating is carried out on the basis of monitoring the business climate, public

administration research, the degree of the economy globalization, and the level of economic freedom, human potential and the level of corruption in the society. In general, this index is formed by a set of principal indicators, enhancing indicators and indicators of the level of the innovative economy, which is reflected in Figure 3.

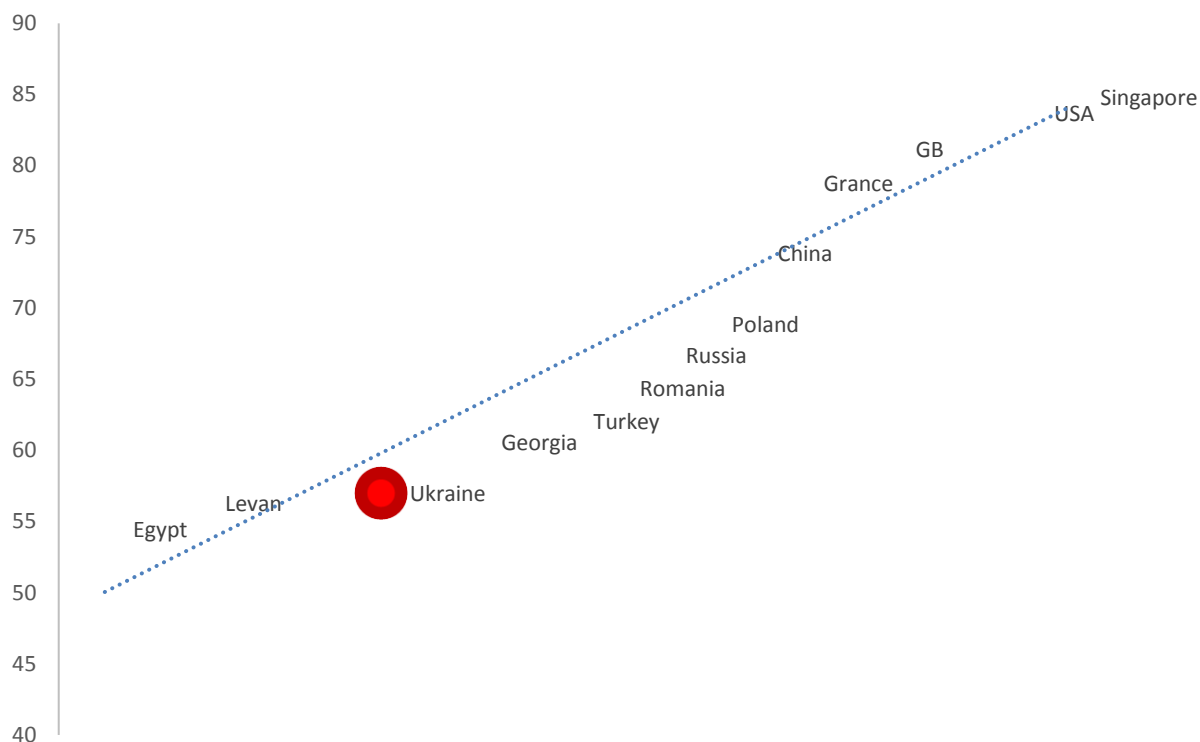


**Figure 3. Components of the global competitiveness index**

*Source: developed by the authors based on "The Global Competitiveness Report" (2019)*

In the international competitiveness rankings, Ukraine is traditionally ranked among the developing countries. It should be mentioned, that such countries are characterized by increased political and economic instability, unfavorable investment climate and high economic risks.

In particular, according to the data of the latest report "The Global Competitiveness Report" published in 2019, Ukraine ranked the 85<sup>th</sup> place among 141 countries, moving down 2 positions in the ranking compared to the previous year. Due to the fact that the rating for 2020 has not been made yet, it is rather difficult to predict the prospects for competitiveness under conditions of the pandemic; however it is possible to state for sure that further deterioration of indicators is possible next year. As of 2019, Ukraine's closest neighbors in the ranking were Sri Lanka (the 84<sup>th</sup> place) Moldova and Tunisia (the 86<sup>th</sup> and 87<sup>th</sup> place, accordingly). The ranking of the most influential countries is reflected in Figure 4.



**Figure 4. Ukraine in the competitive ranking of countries as of 2019**

Source: WEF, 2019

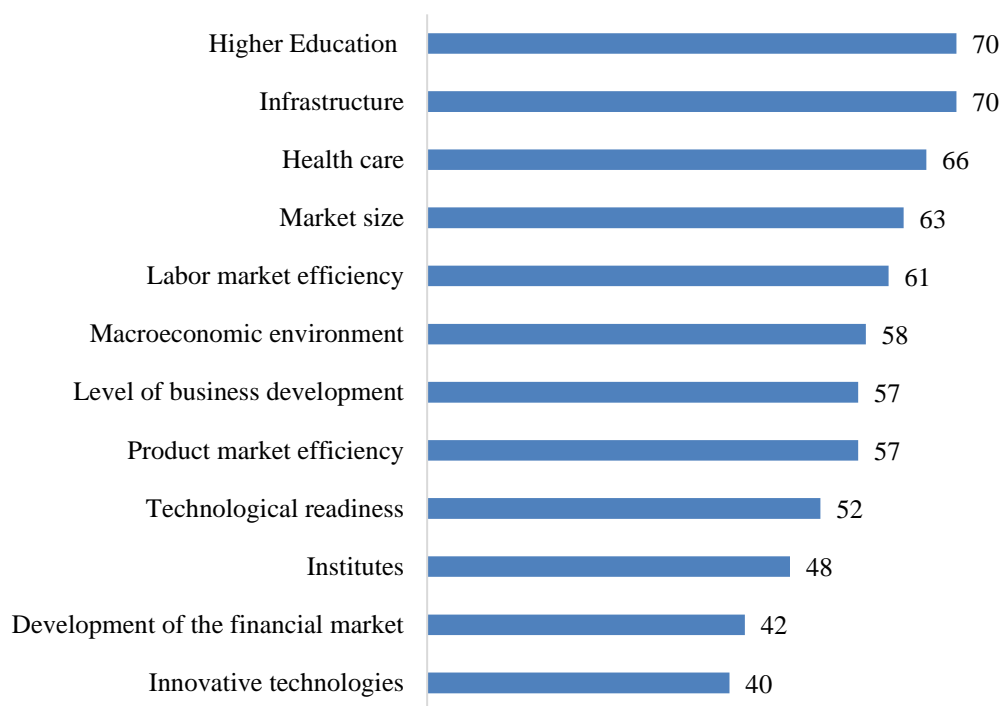
In order to determine the components of the construction of the competitiveness index, its components have been investigated – that is, these are 12 indicators, which are reflected in Figure 3. According to the research, the most problematic factors currently hindering the development of the competitiveness of the economy have been identified. These are as follows:

- 1) the level of development of innovative technologies; although it has increased during 2019, however, it remains as the lowest indicator among all those taken into account in the rating;
- 2) the perfection of the financial market, the indicator of which decreased compared to 2018 and began to occupy an even lower position in comparison with the financial markets of other countries;
- 3) the level of institutional development, which has increased slightly compared to 2018, but it remains quite low;
- 4) the level of technological readiness, which is at the same level, however, it does not correspond to the competitiveness level in the IT sphere among other countries.

Having sorted the data of indicators by 12 categories, the strengths and weaknesses of Ukrainian competitiveness were identified.

A noteworthy detail is that according to the results of the last year of comparison, Ukraine has taken a step forward in terms of some components of the competitiveness index. It is especially worth highlighting the infrastructure development, which has taken the 57th position in the ranking over the past year. It is also worth pointing out that the development of the education level has taken the 44th place in the ranking.





**Figure 5. The principal indicators of Ukraine's competitiveness as of 2019**

Source: WEF, 2019

Improving the values of sub-indexes, especially such as “efficiency enhancers”, having a weight of 50% in the overall index, are of fundamental importance for Ukraine's competitiveness. According to the current methodology for assessing competitiveness, Ukraine belongs to the group of countries focused on efficiency; consequently, the indicators forming the group of “performance enhancers” are significant, remaining the principal ones. Ukraine has a fairly high indicator in terms of market size, which allows it to take the 47th place in the ranking. Having studied the components of competitiveness, one may distinguish strengths and weaknesses, prospects and threats for the subsequent periods.

**Table 2. SWOT-analysis of Ukraine's competitiveness**

SWOT	Strengths	Weaknesses
<b>Prospects</b>	Higher education Infrastructure Health care Market size	Innovative technologies Technological readiness Commodity market
<b>Threats</b>	Macroeconomic environment Labor market Level of business development	Institutes Financial market

Source: developed by the authors

Therefore, the basic strengths that can increase and improve the overall level of competitiveness in the future are as follows: the state of education of the population, the rapid development of infrastructure, improving the health care structure as a result of reorganization and introduction of advanced technologies in the treatment of a large amount of people. The market size, which is quite large, remains a strong key

aspect. At the same time, there are a number of factors that do not pose a significant threat to the state through good indicators (above 50%) of the macro environment, the labor market, and the level of business development. Currently, innovative technologies and technological readiness remain rather weak; however, in terms of the education development, these indicators have prospects for advancing. Institutions and the financial market as the basic source of financial support for business development remain restraining forces of competitiveness development.

The growth of the pandemic in the world has caused significant changes in the functioning of numerous states. In particular, the role of state governance in emergency conditions has been strengthened in most countries; sanitary and epidemiological measures have been introduced as well as distance forms of education and working have been implemented. Herewith, decrease in business activity and reductions in production in all countries have led to a global decline in demand and, consequently, drop of prices in world commodity markets. In particular, the metallurgical industry of Ukraine, the market of oil products as well as some branches of agro-industry were especially affected. However, in 2020, the demand for sunflower oil and seeds, electric water heaters, electrical equipment, etc. increased. The significant commodity orientation of domestic exports and intrinsic dependence on the external market has also created currency dependence (Ministry of Economy of Ukraine).

**Discussion.** State strategizing of development of Ukraine's economy competitiveness under the conditions of modern global instability provides as follows:

- development of innovative activities through the introduction of new technologies into business processes, which will help reduce energy intensity, resource intensity and labor costs; as a result, this will have a positive effect on price proposals and the development of commodity markets;
- searching and allocation of internal intellectual resources and the creation of competitive products;
- developing effective financial programs and assistance on the part of the state in the creation of such programs, aimed at developing innovative entrepreneurial activity;
- building up the infrastructure of an innovative economy by creating business incubators, IT parks and other intellectual projects that will significantly increase the inflow of foreign investment and the speed of development of related industries;
- introduction of effective mechanisms in order to support innovative projects implemented by entrepreneurs and small businesses;
- ensuring the development of the internal market by providing healthy competition and reducing the monopolists' influence;
- accumulation of investment in the development of intellectual capital.

**Conclusion.** Taking into account the investigations on the strengths and weaknesses of the current Ukraine's competitiveness, it has been revealed that it is possible to improve the national economy of Ukraine under the conditions of global instability by methods which are characterized with high potential and enough space

for development. Such factors include innovative technologies and the development of IT-technologies that have sufficient skilled labor, but lack of funding. The development of such technologies will significantly alter the commodities market, which will allow in the short term accelerating the competitiveness growth of the national economy. In general, competitive advantages can be obtained by improving the functioning of state institutions and infrastructure, which will influence positively on business and the effectiveness of financing and supporting advanced sectors of the economy. Nowadays, Ukraine is one of the few countries having all the chances, after a while, to become a state with high indicators of economic competitiveness under the conditions of global instability.

**Author contributions.** The authors contributed equally.

**Disclosure statement.** The authors do not have any conflict of interest.

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