

# ANALYSIS OF THE COMPETITIVE POSITIONS OF THE UKRAINIAN ECONOMY IN THE CONTEXT OF GLOBALIZATION

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UDC 339.137.2:339.9

**Barylyuk I. V., Kizyma D. Analysis of the Competitive Positions of the Ukrainian Economy in the Context of Globalization**

The article examines the theoretical bases of national competitiveness as well as provides practical methods of determining the competitive advantages of countries by various methodologies. Based on quantitative and qualitative indicators, the competitiveness of Ukraine in 2011 is analyzed and the key competitive advantages on the world market are identified.

**Key words:** competitiveness of countries, competitive advantages, globalization

**Fig.:** 16. **Bibl.:** 16.

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УДК 339.137.2:339.9

**Барилюк І. В., Кізіма Д. Аналіз конкурентних позицій економіки  
України в умовах глобалізації**

У статті розглянуто теоретичні засади конкурентоспроможності країн, а також наведено практичні методи визначення конкурентних переваг країн за різними методиками. На основі кількісних та якісних показників проведено аналіз конкурентоспроможності України у 2011 році, а також визначено основні конкурентні переваги України на світовому ринку.

**Ключові слова:** конкурентоспроможність країн, конкурентні переваги, глобалізація.

**Рис.:** 16. **Бібл.:** 16.

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УДК 339.137.2:339.9

**Барылюк И. В., Кизима Д. Анализ конкурентных позиций экономики  
Украины в условиях глобализации**

В статье рассматриваются теоретические основы конкурентоспособности стран, а также приведены практические методы определения конкурентных преимуществ стран по разным методикам. На основе количественных и качественных показателей проведен анализ конкурентоспособности Украины в 2011 году, а также определены основные конкурентные преимущества Украины на мировом рынке.

**Ключевые слова:** конкурентоспособность стран, конкурентные преимущества, глобализация.

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The concept of competitiveness has become one of the essential characteristics used for comparing the ability of countries to adapt to the participation in the international economy. Today there are several institutions researching competitiveness of a separate economic unit as well as an industry or the whole country. The most well-known ratings are published every year by The World Economic Forum and The International Institute for Management Development in «The Global Competitiveness Report» and «The World Economic Yearbook» respectively.

Among different scientific works which uncover theoretical bases of the competitiveness, its modern forms and international competitive environment, as well as the reasons of developing competitive advantages, the problems of ensuring high competitiveness of a separate country and the searching of new forms of achieving it, it is necessary to mention a contribution of the Ukrainian scientists: O. Bilo-

rus, B. Hubskey, D. Lukyanenko, Y. Pakhomov, A. Poruchnyk and others.

The aim of this article is to systematize theoretical views on the research of economic competitiveness of a country, and to analyze methodologies used for the comparison of competitive positions of a country in the world economy under conditions of globalization. Particular emphasis is put on the determination of the level of potential as well as on the detection of the main barriers which reduce competitive positions of Ukraine on the international level.

Some aspects of the concept of competitiveness are analyzed in David Hume's model «price – specie – flow», according to which increasing the money supply in a country leads to higher prices, which in turn will lead to a decline in country's competitiveness and as a result to increasing imports and reducing exports. Moreover, the concept of

competitive advantages is considered in the works by Adam Smith, David Ricardo and others [11].

However, the study of competitive advantages in terms of microanalysis began only in the 1960-70s, when the period of postwar prosperity ended and the new phase of restructuring the world economy began. The main critical points were, firstly, the currency crisis and the collapse of Bretton Woods monetary system, secondly, fuel and energy crisis. Inflation and unemployment were the consequences that led to new areas of economic research [2].

Inflation and unemployment, which were caused by the crisis processes on the world market, became the reasons for researches not in the context of a separate economic unit, but of the whole national economy. Since then the necessity of the analysis of government policy in industry has become clear, however, not as a separate research, but as a complex of related studies. Also since that period the important changes in the international economy have occurred: the barriers in the international trade and exchange of capital were lowered, the information revolution took place and, as a result, the globalization and internationalization as the main consequences of such changes. Thus, the new «qualitative» competition has begun and this meant not only imposing constraints in order to preserve competitive advantages, but changes that would stimulate the development of national economies.

The neoclassical growth model (The Solow-Swan growth model) is uncovered in the economic theory, but it does not answer the question what is the source of economic growth and does not emphasize what economic levers should be used to achieve economic growth in a country. An attempt to overcome the disadvantages of the Solow-Swan model was the Romer's model of endogenous growth, according to which among factors affecting the technological progress and capital, the biggest influence have the decisions and performance of the government and the economic units that are not the exogenous factors [2, 11].

In the next economic models a bigger emphasis is put on competitiveness in the long term, because the long term growth prospects of the economy are one of the basic principals in economics.

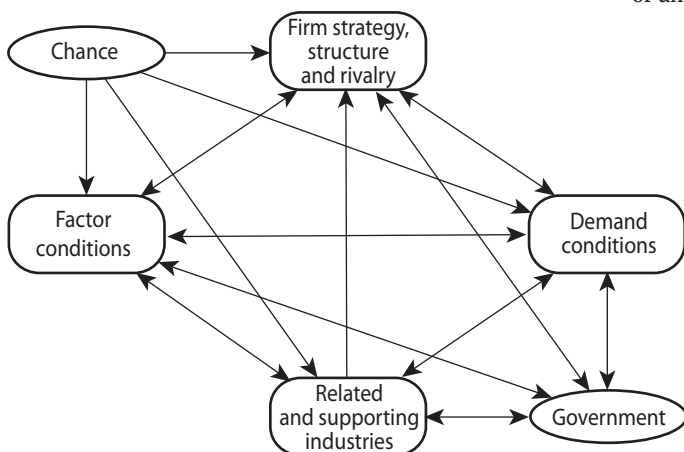


Fig. 1. The Porter's diamond of national advantage

Source: Michael E. Porter. The Competitive Advantage of Nations [6, p. 127].

Currently, there is no single definition of the competitiveness. The chronology of the research into the essence of this concept dates back to 1964 when B. Bellasa considered a country more or less competitive if the relation «cost-and-price development» or other factors changed, and its ability to sell on national and international markets became better or worth [2].

In 1983 the experts of European Economic Community analyzing the competitiveness of EEC countries defined 'competitiveness' as the ability of a country to overcome international competition, and the perception of its goods on international markets should measure competitiveness, at least in the primary estimation [2].

In «The Global Competitiveness Report 2009 – 2011» competitiveness is regarded as a set of institutions, policies, and factors that determine the level of productivity of a country [3, p. 4].

All things considered, there is no single definition of competitiveness, but it is obvious that in the developed market environment it has the crucial role and is a ground for further economic growth and increase in the welfare of countries.

One of the most outstanding works dedicated to the competitiveness is Michael E. Porter's model, which is often called «the Porter's diamond of national advantage» (fig. 1). It is based on the research conducted in Great Britain, Denmark, Italy, the Republic of Korea, USA, Switzerland, Sweden, Japan, Singapore and other advanced economies which have competitive advantages on the world market. According to the received results Porter suggested that there are four determinants that are the basis for those advantages: factor conditions (capital and workforce, technical, informational, scientific, technological and other infrastructure), demand condition (solvency, stability etc.), related and supporting industries (as well as industrial connections), firm strategy, structure and rivalry (methods of production, management etc.). These four determinants are situated in the angles of the «diamond». Moreover, Porter mentioned that there are the other two factors that have influence on the determinants. These are chances and government. Moreover, Porter emphasized that the influence of the government can be both positive and negative, i.e. it indicates the importance of understanding by the government of its powers and decisions in the society.

All the determinants influence each other, but cannot affect to a great extent the competitiveness individually. For example, if the expenditures on education increase, it will lead to the growth of the number of qualified workforce, but if the demand is not solvent and if the organization of industry does not need a qualified workforce, all the changes will not lead to the increase in competitive advantages in a country.

But many economists do not support Porter's model, emphasizing its disadvantages, such as the underestimation of factors on a macro level, a considerable influence of transnational corporations, the focus on the micro-level analysis, and, as a consequence, inability to investigate the competitiveness on the world level etc.

On the basis of theoretical aspects the methodology which is used by the International Institute for Management Development is analyzed. Since 1989 IMD has worked on the research of national competitiveness, however until 1996 the Institute cooperated with The World Economic Forum. Now the two institutions prepare two different reports [5].

The research is based on the analysis of 331 factors, which are divided into four groups – economic performance, government efficiency, business efficiency and infrastructure. Each category is of equal importance and includes five factors. For example, factors which belong to the category «economic performance» include size (GDP, GNP, household consumption expenditures, government consumption expenditures, real GDP and GNP growth per capita etc.), international trade (current account balance, exports and imports of goods, terms of trade index, exchange rates etc.), international investment (direct investment flows abroad and inward, balance of direct investment flows etc.), employment (total employment, percentage of population, unemployment rates etc.) and prices (consumer price inflation, cost-of-living index, office rent etc.). Therefore, in the analysis the experts use 20 (4 × 5) different factors which belong to four main aspects of the economic environment of a country.

«The World Competitiveness Yearbook 2011» ranked Ukraine 57th (51,454) among 59 countries which were analyzed by IMD. Greece is ranked 56th (51,882), and Croatia - 58th (49,402). According to the results of the research, the 1st position belongs to two countries – Hong Kong (100,000) and USA (100,000), which in 2010 were in 2nd and 3rd position respectively, and Singapore was on the top of the 2010 rating. Other countries which belonged to the first 10 countries with the best competitive advantages in 2010 were Sweden, Switzerland, Taiwan, Canada, Qatar, Australia and Germany [10].

Experts suggest that the main reasons of such a low rate of competitiveness of Ukraine are [13]:

1. Lack of interest from investors, and it is increasing because of the instability of legislation and because of the uncertainty of the foreign economic development vector.
2. While most of the countries are focused on the usage of new technologies, Ukraine falls behind with the pace of implementing scientific and technological advances. In some cases it can be caused by the «brain-drain» processes, i.e. well-educated and qualified people leave Ukraine and develop innovational potential of other countries, while Ukraine lacks good specialists and technologies are on a very low level.
3. Need for structural changes and solid reforms in all aspects.

In researches conducted by WEF, which are based on the analysis of 12 factors (pillars) that ensure competitive advantages of a country, the experts suggest the following determinants [9]:

1. *Institutions*. It is defined by legislative and administrative institutions, with which business structures interact in their work. To such factors belong: the level of control, corruption, and distrust to authorities etc.
2. *Infrastructure*, which determines the conditions, easiness and convenience of doing business.

3. *Macroeconomic environment*, which is important, first of all, for ensuring efficient work of firms, which, in turn, influences the social welfare in general. If negative tendencies take place in a country, it will affect the size of revenues to government budget, and, as a result, it will lead to the reduction of social transfers.

4. *Health and primary education*. This influences the labor, as healthy and qualified workforce is a vital component that can ensure competitive advantages of countries, even if they do not have considerable capital resources.

5. *Higher education and training* is a factor which is important for the countries that want to create added value.

6. *Goods market efficiency* enables a country to manage the proportions of production of goods and services according to its own possibilities and possibilities of other countries.

7. *Labor market efficiency* means effective usage of labor. If a labor market is flexible, it will be able to adapt to any changes in economics and ensure appropriate level of production in a country.

8. *Financial sector development* affects the distribution of financial resources and investments on the national market. It is very important to analyze the risk factors on the financial market, because it has influence on the investment attractiveness of a national economy of a country.

9. *Technological readiness*. It means the ability of a country to react to the changes which occur in technologies all over the world, as well as a speed of adaptation to them.

10. *Market size* affects the production in a specific way: the bigger market, the bigger influence on the international economy and stronger competitive positions on world market. The experts include the level of market openness in this factor.

11. *Business sophistication* includes the quality of doing business and its strategic prospects. Clusters, which are regarded as a component of business sophistication, cause the efficiency of doing business and consistency of interests.

12. *Innovations*. High level of competitiveness can be achieved by increasing all the previous factors, but it has also a crucial role in acceleration of competitive advantages.

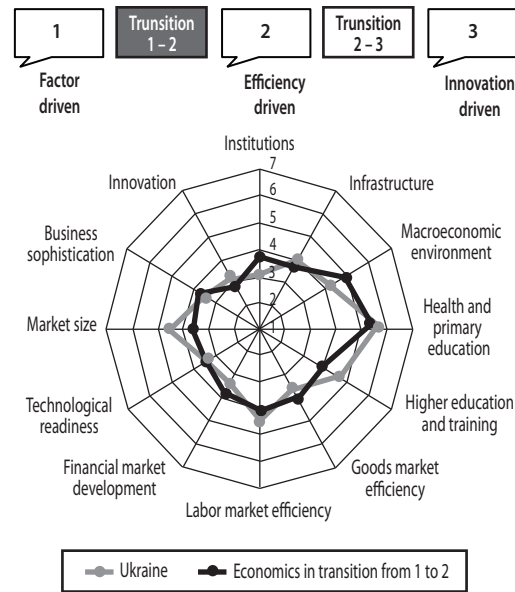
Furthermore, the data about competitive advantages of Ukraine according to «The Global Competitiveness Report 2011 – 2012» are analyzed. As one can see, global competitiveness index of Ukraine (GCI) in 2011 – 2012 is equal to 4.0 (the 82<sup>nd</sup> position among 142 countries), and in 2009 – 2010 GCI was equal to 4.0 (the 82<sup>nd</sup> position among 133 countries), in 2010 – 2011 – 3.9 (the 89<sup>th</sup> position among 139 countries), and this shows negative tendency in Ukraine in recent years.

Since Ukraine is at the transition position between the first and the second level (the 1<sup>st</sup> level – economies of the countries at a basic level, the 2<sup>nd</sup> level – economies of the countries which are mainly based on factors that increase efficiency of business area; the 3<sup>rd</sup> level – economies that are working on improving business), the proportion of influence on the factors is divided as follows: 40% – basic requirements, 50% – efficiency enhancers and 10% – innovations and sophistications factors. Thus, the following results are obtained (fig. 2).

### Global Competitiveness Index

	Rank (out of 142)	Score (1 – 7)
GCI 2011 – 2012	82	4.0
GCI 2010 – 2011 (out of 139)	89	3.9
GCI 2009 – 2010 (out of 133)	82	4.0
<b>Basic requirements (40.0%)</b>	<b>98</b>	<b>4.2</b>
Institutions	131	3.0
Infrastructure	71	3.9
Macroeconomic environment	112	4.2
Health and primary education	74	5.6
<b>Efficiency enhancers (50.0%)</b>	<b>74</b>	<b>4.0</b>
Higher education and training	51	4.6
Goods market efficiency	129	3.6
Labor market efficiency	61	4.4
Financial market development	116	3.4
Technological readiness	82	3.5
Market size	38	4.5
<b>Innovation and sophistication factors (10.0%)</b>	<b>93</b>	<b>3.3</b>
Business sophistication	103	3.5
Innovation	74	3.1

### Stage of development



**Fig. 2. Global competitiveness index of Ukraine**

Source: The Global Competitiveness Report 2011 – 2012 [9, p. 356].

In order to compare competitive advantages of Ukraine, the same information about Poland is reviewed (fig. 3).

Thus, Poland is in 41<sup>st</sup> position and according to all 12 pillars is ahead of Ukraine. It provides the preconditions for searching the reasons of such a difference between two neighboring countries and stimulates us to choose the western vector of economic development of Ukraine, because the difference between Ukraine and its main Western neighbor is not so big, and it emphasizes one more time that it is necessary to move in the direction of European way of transformation. Moreover, Switzerland is in 1<sup>st</sup> place and continues to keep its positions. The economy of Switzerland

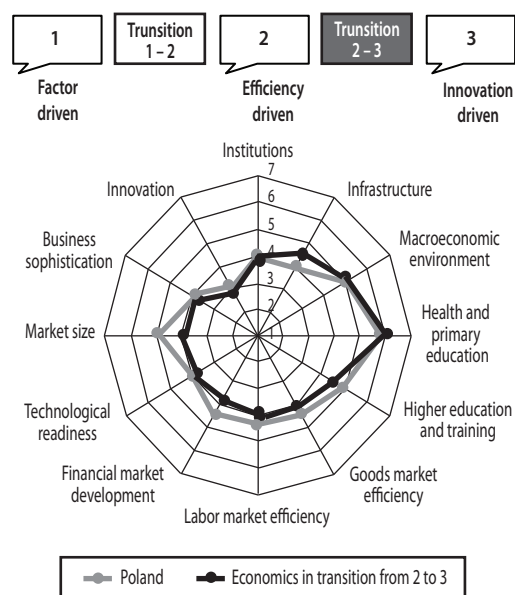
belongs to economies of the third level, and that is why the proportion of the influence of factors is 20:50:30. According to the majority of factors, Switzerland holds leading positions and only in terms of market size is in 39<sup>th</sup> place (fig. 4). This shows the priority of the Western vector of development of Ukrainian economy.

On the basis of this information the relation between global competitiveness index and gross national income per capita for all the above-mentioned countries can be analyzed. The results of the research of this relation for Ukraine are presented in the graph (fig. 5).

### Global Competitiveness Index

	Rank (out of 42)	Score (1 – 7)
GCI 2011 – 2012	41	4.5
GCI 2010 – 2011 (out of 139)	39	4.5
GCI 2009 – 2010 (out of 133)	46	4.3
<b>Basic requirements (31.7%)</b>	<b>56</b>	<b>4.7</b>
Institutions	52	4.2
Infrastructure	74	3.9
Macroeconomic environment	74	4.7
Health and primary education	40	6.1
<b>Efficiency enhancers (50.0%)</b>	<b>30</b>	<b>4.6</b>
Higher education and training	31	4.9
Goods market efficiency	52	4.4
Labor market efficiency	58	4.5
Financial market development	34	4.6
Technological readiness	48	4.2
Market size	20	5.1
<b>Innovation and sophistication factors (18.3%)</b>	<b>57</b>	<b>3.6</b>
Business sophistication	60	4.1
Innovation	58	3.2

### Stage of development



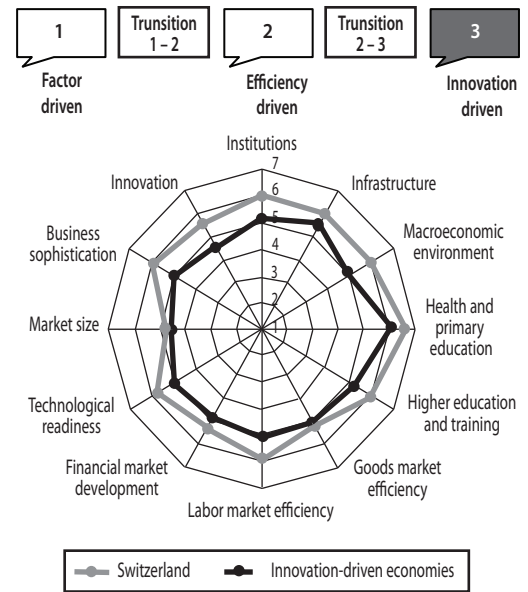
**Fig. 3. Global competitiveness index of Poland**

Source: The Global Competitiveness Report 2011 – 2012 [9, p. 296].

**Global Competitiveness Index**

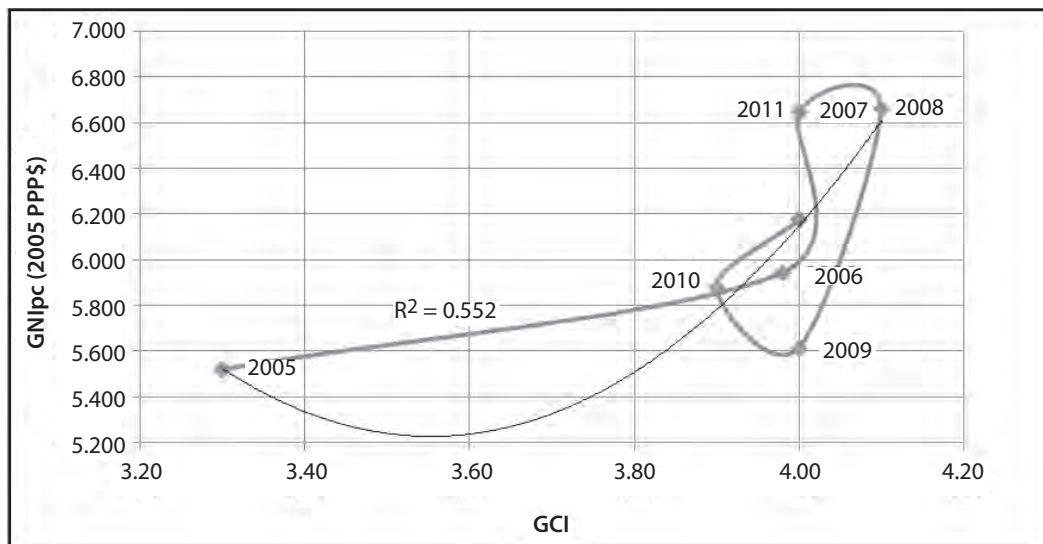
	Rank (out of 39)	Score (1 – 7)
GCI 2010 – 2011 .....	1	5.6
GCI 2009 – 2010 (out of 133).....	1	5.6
GCI 2008 – 2009 (out of 134).....	2	5.6
<b>Basic requirements</b> .....	<b>2</b>	<b>6.1</b>
1st pillar: Institutions.....	7	5.8
2nd pillar: Infrastructure.....	6	6.1
3rd pillar: Macroeconomic environment.....	5	5.8
4th pillar: Health and primary education.....	7	6.6
<b>Efficiency enhancers</b> .....	<b>4</b>	<b>5.4</b>
5th pillar: Higher education and training.....	4	5.8
6th pillar: Goods market efficiency.....	4	5.3
7th pillar: Labor market efficiency.....	2	5.9
8th pillar: Financial market development.....	8	5.3
9th pillar: Technological readiness.....	7	5.6
10th pillar: Market size.....	36	4.5
<b>Innovation and sophistication factors</b> .....	<b>2</b>	<b>5.7</b>
11th pillar: Business sophistication.....	4	5.8
12th pillar: Innovation.....	2	5.6

**Stage of development**



**Fig. 4. Global Competitiveness Index of Switzerland**

Source: The Global Competitiveness Report 2011 – 2012 [9, p. 334].



**Fig. 5. Relation between global competitiveness index and gross national income per capita in Ukraine**

Source: The Global Competitiveness Report 2011 – 2012.

The relation between global competitiveness index and gross national income per capita in Poland is as follows (fig. 6).

The research of the relation between global competitiveness index and gross national income per capita in Switzerland is shown in fig. 7. As the graph shows, even in Switzerland, which in 2011 – 2012 was regarded as the most competitive country, some crisis tendencies took place; they influenced the dynamic of both global competitiveness index and gross national income per capita:

The relation between global competitiveness index and gross national income per capita in Georgia is analyzed, as its figures are often compared with analogical figures of Ukraine (fig. 8).

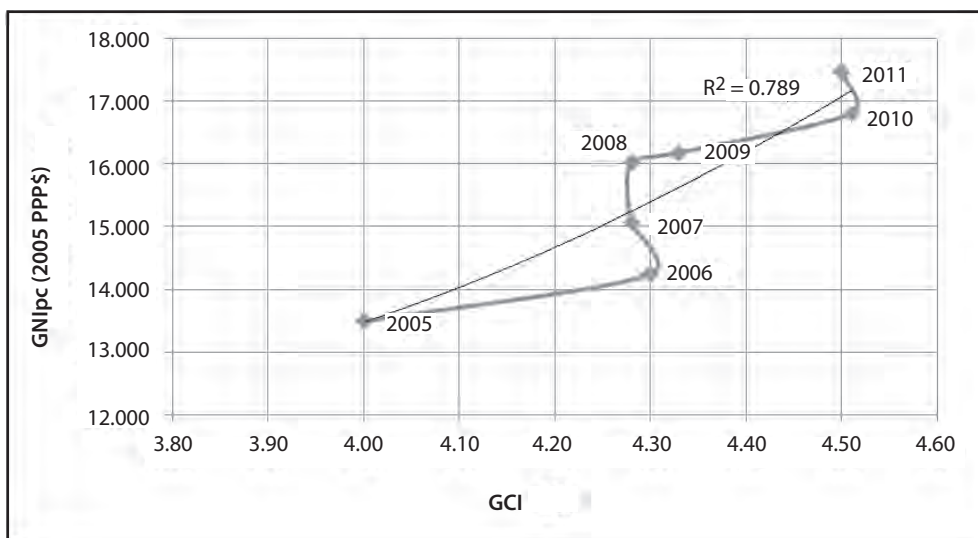
The dynamic of global competitiveness index of all the above-mentioned countries is shown in the chart below (fig. 9).

For the analysis of the quality of life in a country experts often use human development index. After having analyzed the relation between global competitiveness index and human development index one can draw a conclusion that there is a strong bond between these two figures. The relation of it is shown in fig. 10.

The relation between these two indexes for Poland is shown in fig. 11.

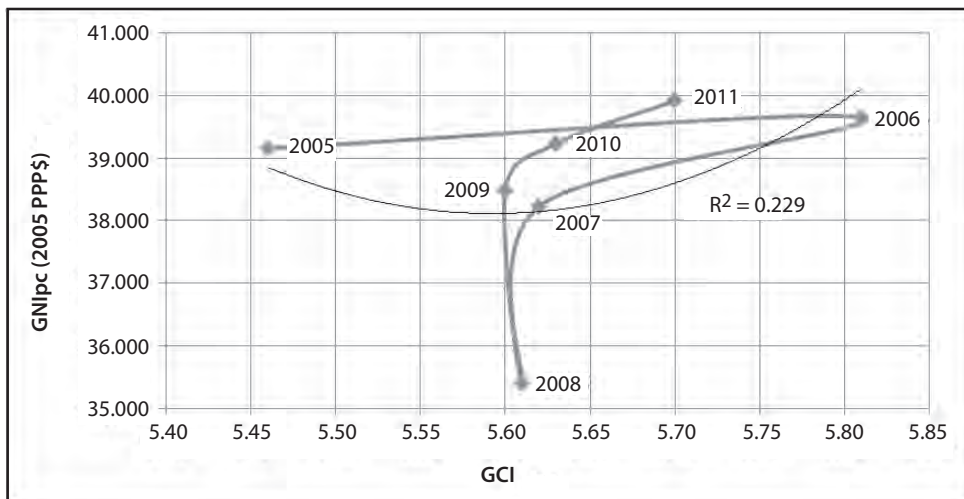
There are some negative tendencies in Switzerland caused by the world economic crisis that influenced global competitiveness index and human development index. As a result, the influence is reflected on the graph as a nonlinear relation between two figures and thus the correlation coefficient's value is quite small (fig. 12).

Furthermore, the relation between global competitiveness index and human development index in Georgia is



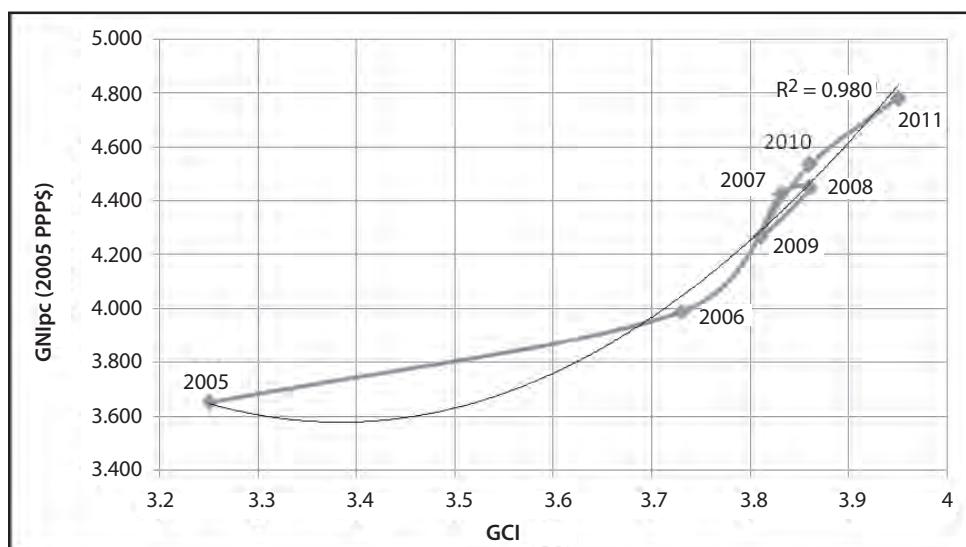
**Fig. 6. Relation between global competitiveness index and gross national income per capita in Poland**

Source: The Global Competitiveness Report 2011 – 2012.



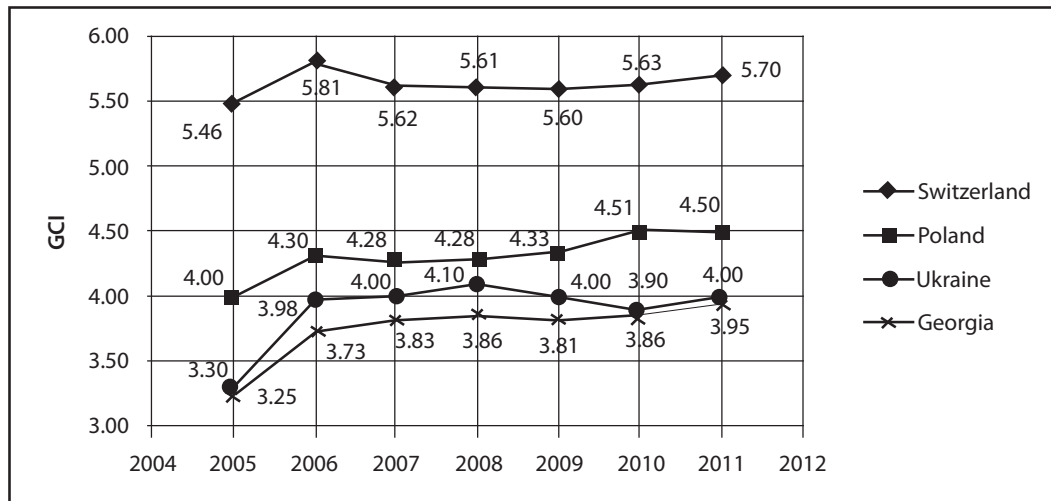
**Fig. 7. Relation between global competitiveness index and gross national income per capita in Switzerland**

Source: The Global Competitiveness Report 2011 – 2012.



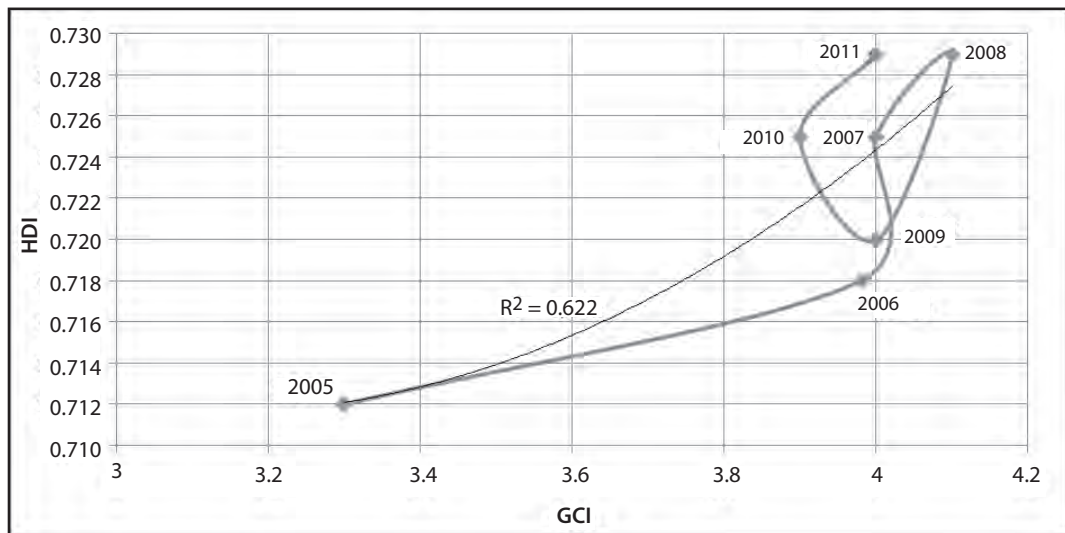
**Fig. 8. Relation between global competitiveness index and gross national income per capita in Georgia**

Source: The Global Competitiveness Report 2011 – 2012.



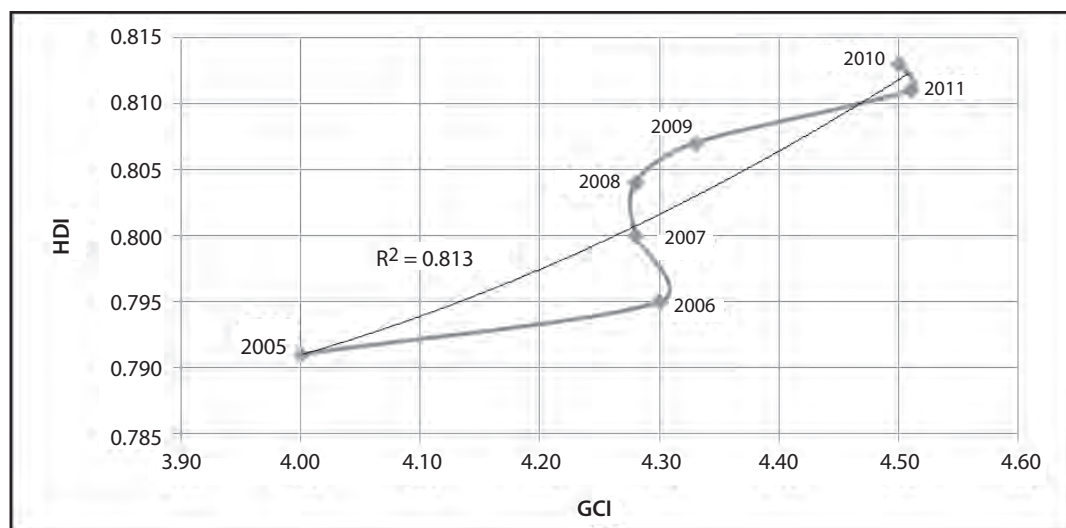
**Fig. 9. The dynamic of global competitiveness index of Ukraine, Poland, Switzerland and Georgia**

Source: The Global Competitiveness Report 2011 – 2012.



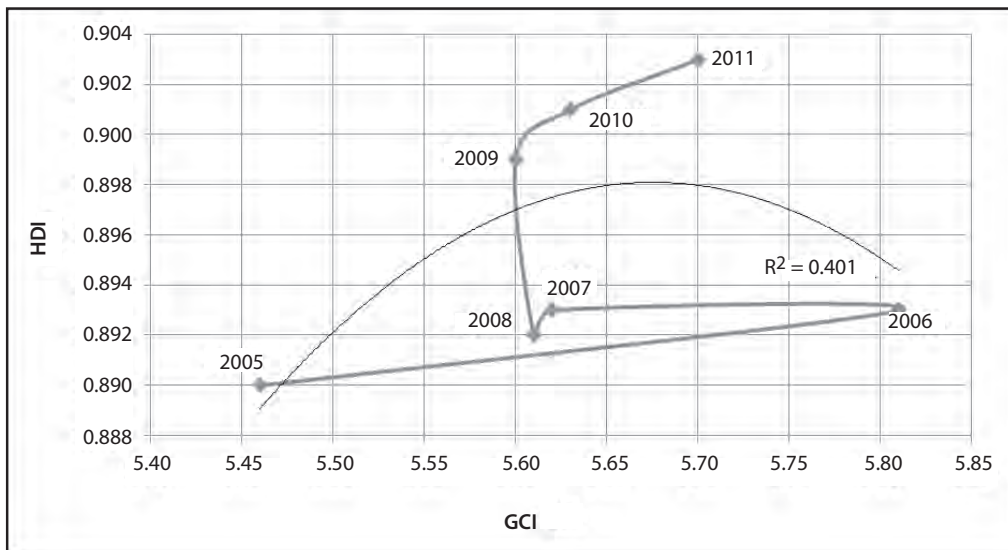
**Fig. 10. The dynamic of relation between global competitiveness index and human development index in Ukraine**

Source: The Global Competitiveness Report 2011 – 2012, Human Development Report 2011.



**Fig. 11. The dynamic of relation between global competitiveness index and human development index in Poland**

Source: The Global Competitiveness Report 2011 – 2012, Human Development Report 2011.



**Fig. 12. The dynamic of relation between global competitiveness index and human development index in Switzerland**

**Source:** The Global Competitiveness Report 2011 – 2012, Human Development Report 2011.

analyzed using graphical model (fig. 13). The chart shows that the relation between these two indexes is strong, and only in 2007 – 2009 there were some negative tendencies caused largely by the world economic crisis.

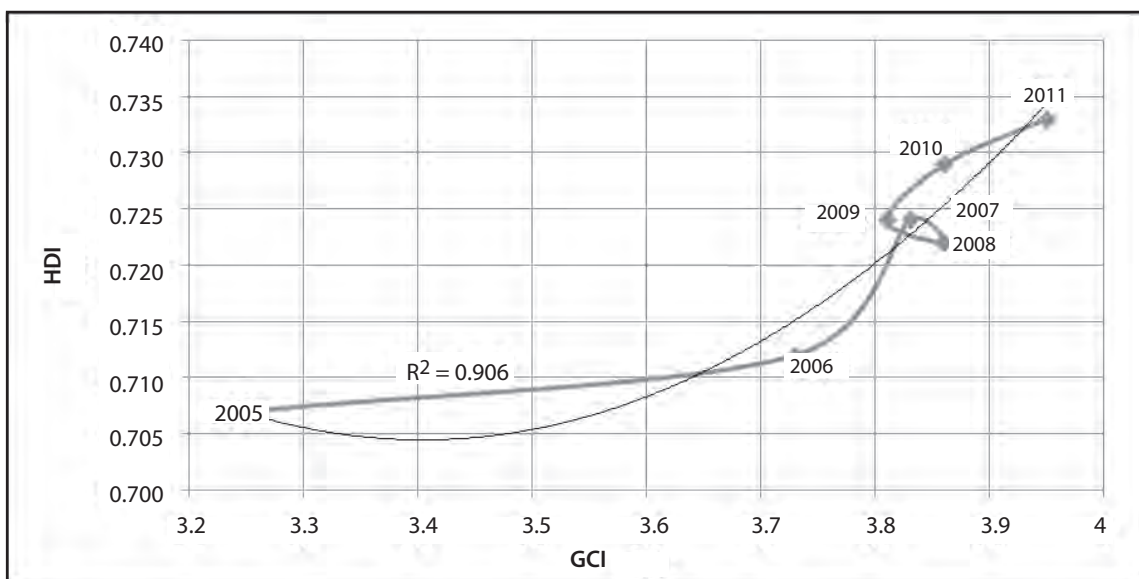
All things considered, the conducted research resulted in the conclusion that there is a relation between global competitiveness index and human development index. In addition, the dynamic of human development index in historical perspective is analyzed and shown in fig. 14. This graphical model enables drawing conclusions about the dynamic of human development index, in particular, about tendencies, which were observed in different countries in the context of globalization. The chart shows that Georgia outpaced Ukraine in 2009 and keeps on doing so.

Besides, the competitiveness of Ukrainian regions is analyzed (fig. 15).

The analysis of competitiveness of Ukrainian regions was made by the Foundation for Effective Governance according to the methodology used by WEF. The average level of competitiveness in Ukraine is equal to 3.84 and the five regions with the most competitive advantages include Kyiv, Dnipropetrovskyy, Kharkivskyy, Kyivskyy and Donetskyy region.

It is clear that the success of Ukraine on the world market in conditions of globalization depends on all the components, including the level of competitive advantages of a particular region. Thus, when analyzing factors which affect the competitiveness of Ukraine, it is necessary to do an analysis of each region.

The experts of the Foundation admit that a model of growth based on development of some big cities is not the only one possible for Ukraine, however many leading researchers dealing with this issue emphasize a crucial



**Fig. 13. The dynamic of relation between global competitiveness index and human development index in Georgia**

**Source:** The Global Competitiveness Report 2011 – 2012, Human Development Report 2011.



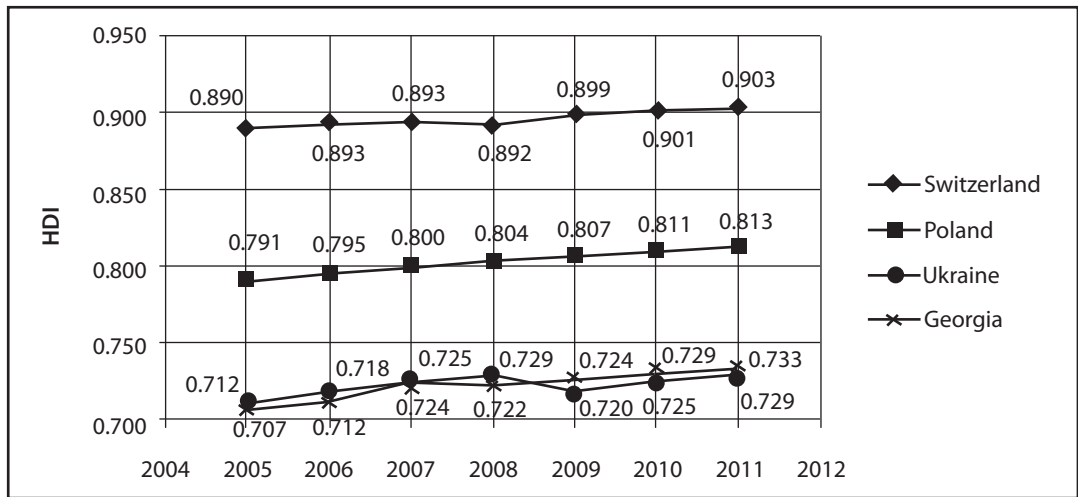


Fig. 14. The dynamic of human development index of Ukraine, Poland, Switzerland and Georgia

Source: The Global Competitiveness Report 2011 – 2012.

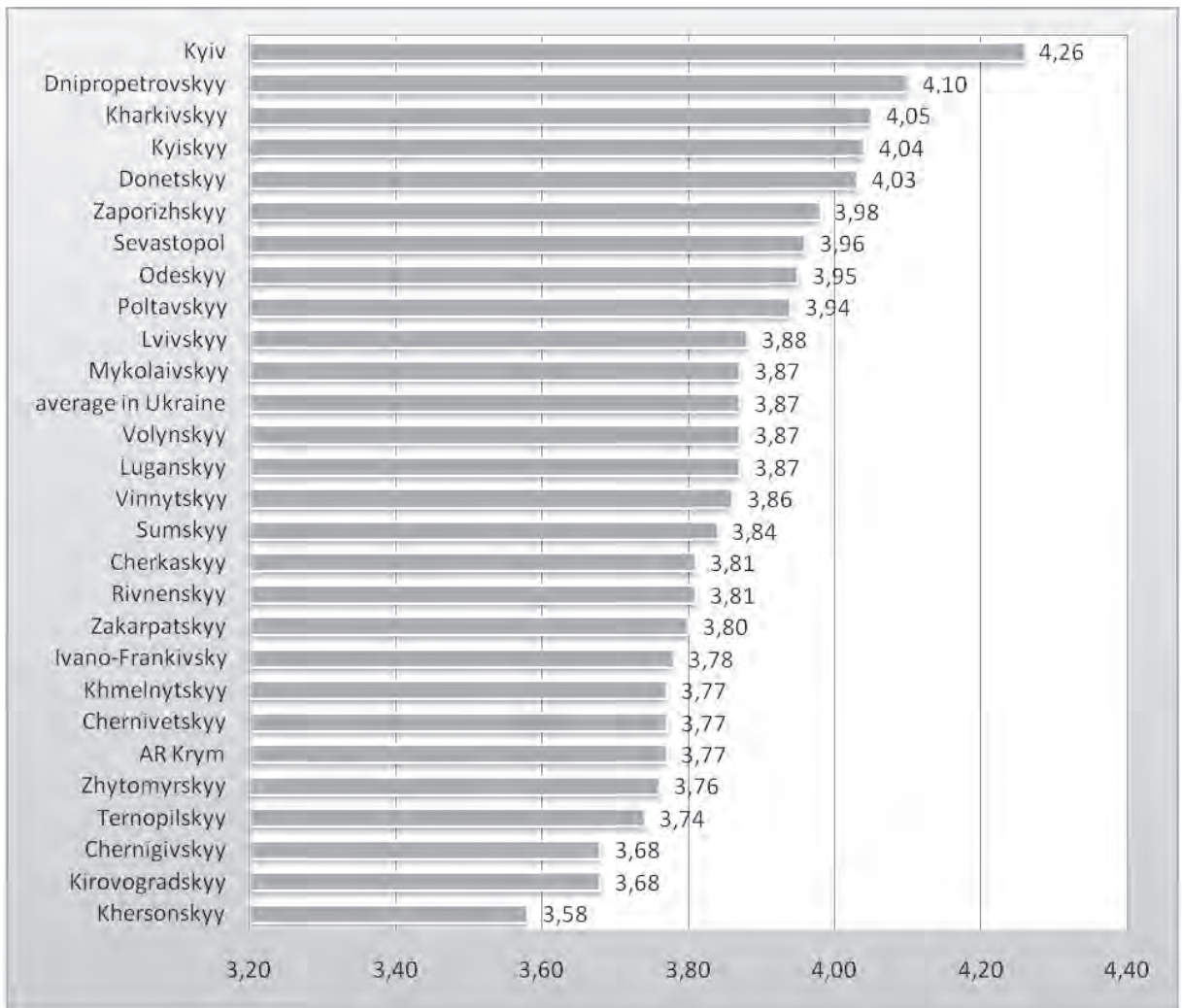


Fig. 15. Global competitiveness index of Ukrainian regions

Source: <http://competitiveukraine.org>

role of such cities. Moreover, rapid growth of economies of big cities can reduce development rates of peripheral areas and increase disproportions. As a result, the development of regional clusters could become not a less effec-

tive factor of economic growth. Many regions of Ukraine, which have different structures and potentials of economy of scale, can develop several competitive clusters at the same time [14].

Due to the results of the research, the main competitive advantages of Ukraine are: quality health care, primary education, higher education and labor market efficiency. In other words, this shows a high level of development of education. However, experts point out that the migration of qualified workforce is becoming more and more dangerous for national economy of Ukraine.

The lowest rates of development in Ukraine have the following components: market's size, innovations and technological readiness. According to the opinion poll, the level of investment is not sufficient, and statistics show that a level of technologies is low too.

Although we still can observe post-crisis consequences, foreign investors are becoming more interested in the potential of Ukraine. On June 8, 2011 Orlando Ayala, vice-president of Microsoft corporation, who is responsible for developing markets, presented the programme designed by Microsoft aimed at improving competitive advantages of Ukraine on the world market. It was suggested to support the development of information and communication systems of Ukraine in four areas: e-governance, development of education, workforce development and creating new industrial clusters in the sphere of information technologies [15].

All the things considered, the concept of competitiveness plays an important role in economy of a country. During the last few years the world economy has succeeded to a new level of competition, which is based on using solid advantages while discriminating methods are less regarded. Each institution, that deals with the research of the reasons of competitive advantages of countries, use a wide range of indicators, according to which the rate of competitiveness is examined. It leads to growth of interest of investors in dif-

ferent countries. Only complex approach to competitiveness can supply a separate sector of economy or the whole economy with the possibility to improve its position in the world economic system.

Historical and cause-and-effect analysis of competitiveness of Ukraine carried out in this article enabled to prove that Ukrainian economy has potential for improving its competitiveness. However, there are still many barriers which we need to overcome in order to achieve higher rate of competitiveness on the world market. According to the research of WEF, the most problematic barriers are corruption, inadequate tax regulations, bureaucracy, inflation, political instability etc (fig. 16) [15].

All in all, the concept of competitiveness of a country plays a significant role in economies of all countries. Over the last years the world economy went on a qualitatively new stage, and this caused new level of competing – not by using discriminating methods, but, in fact, by developing economically-grounded advantages of countries. Each of the institutions that investigates the reasons of different level of competitiveness of a country uses a set of indicators, which help to identify the most competitive economies in the world, and this increases the interest of investors in a particular country. Only comprehensive approach to the investigation of the process of developing and increasing the competitiveness level can enable us to improve competitive positions of an industry or a whole economy in the world economic system.

At the present stage of development, our country has a considerable economic potential, however there are many factors and processes that reduce and weaken its competitive positions at the international level. We need to develop a strategy for enhancing competitive positions taking into account the best world practices and implement these re-

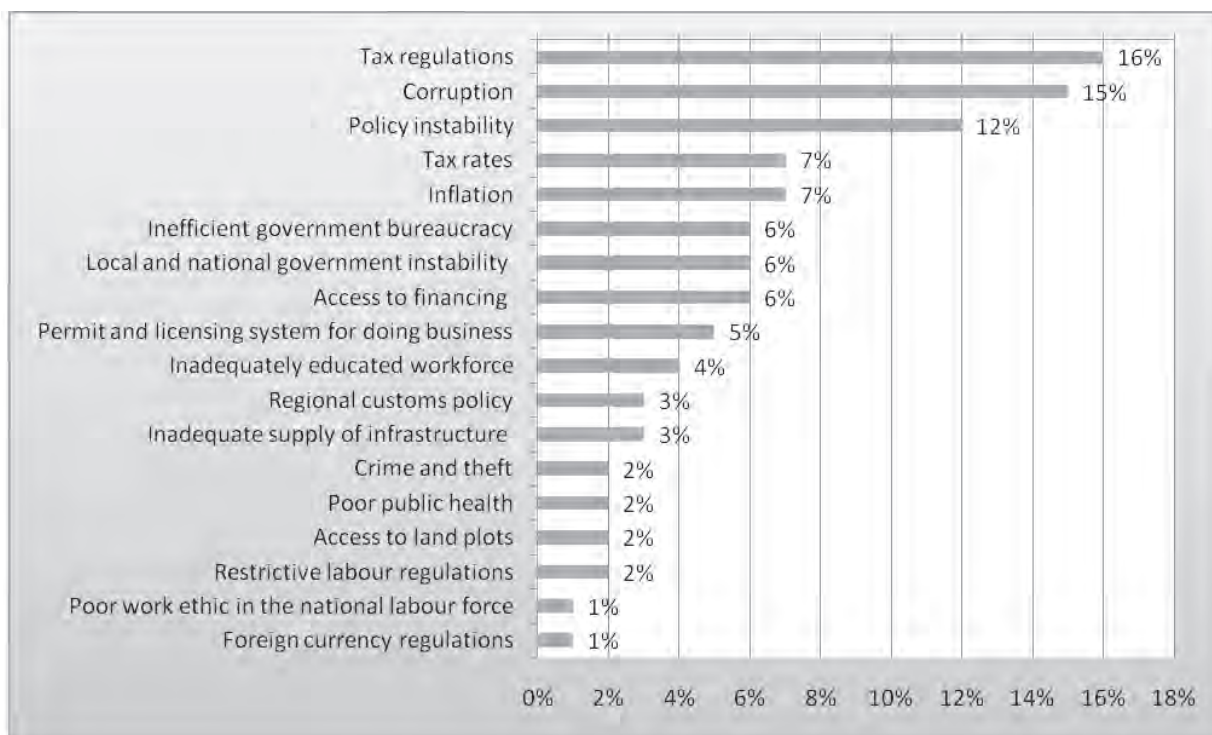


Fig. 16. The most problematic factors of doing business in Ukraine

Source: <http://competitiveukraine.org>

forms as soon as possible. This will lead to the improvement of welfare of all the Ukrainian citizens and to recognition of Ukraine as a strong competitor on the world financial and goods markets in the nearest future. ■

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