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INSTITUTIONAL PROVISION OF INTERNATIONAL BUSINESS DEVELOPMENT IN UKRAINE

The article analyzes the indicators of international business development in Ukraine, shows the most problematic factors for doing business according to indices of international rating organizations, identifies the problems of international business development in Ukraine at the macro and micro levels.

Keywords: *conditions of development, business sector, foreign trade, international business.*

Дьяченко Ольга, Гончаренко Олена. Інституціональне забезпечення розвитку міжнародного бізнесу в Україні.

У статті проаналізовано показники розвитку міжнародного бізнесу в Україні, наведено найбільш проблемні фактори ведення бізнесу за показниками міжнародних рейтингових організацій, визначено проблеми розвитку міжнародного бізнесу в Україні на макро- та мікрорівні.

Ключові слова: *умови розвитку, бізнес-сектор, зовнішня торгівля, міжнародний бізнес.*

Relevance of research topic. In the context of world economy globalization, instability of political and economic development of Ukraine, international entrepreneurial activity takes on a special role and becomes a promising mechanism for creating internal and external competitive environment. The problem of forming favorable conditions for the international enterprises operation has become urgent not only in our country but also in developed countries. International entrepreneurial activity solves a number of major economic and social problems – it develops the real sector of the economy, creates additional jobs, promotes competition and makes

budgets tax payments of all levels. International business is a key driver of economic growth. Trade liberalization opens up the economy to international competition and provides domestic producers with access to global markets. Therefore, the development of international business activity is an important task of the state. Comprehensive and systematic implementation of the study of the development of international business activity is especially relevant in the face of exacerbated economic and social problems.

Formulation of the problem. The process of institutional foundations improving of entrepreneurial activity is the stage of the national economic development strategy implementation. This process requires a clear, not abstract, identification of trends in the business sector and gaps in the institutional sphere.

Analysis of recent researches and publications. Domestic and foreign scientists pay a lot of attention to the problems of international business activity development, among them: M. Geyets, V. Goy, T. Smelyanska, M. Koshuba, M. Rudko, I. Radko, M. Marshalok, S. Nikitchenko, N. Krishtof, I. Matyushenko, V. Dmitriev, O. Zarenkova, A. Tolstova, N. Frolova and others.

Setting objectives. In the context of the most complete and most effective national interests realization, the problem of international business activity research is to carry out economic valuation of the results of its development, to identify endogenous and exogenous tendencies, to identify institutional obstacles to development in the process of interaction with foreign partners.

Presenting main material. In a market economy, international business activity is particular importance as a major factor of country's development. The welfare of citizens and state economic level depend on the level of international business significantly. Therefore, according to modern scientists, the entrepreneur is the main economic entity of the market.

Ukraine pursues an open foreign policy and strives for mutually beneficial cooperation with all partners. Therefore, the economic development imperative based on the use of international business activity is an adequate response to globalization challenges.

Trends in international business in Ukraine characterizing parameters listed in Table. 1.

Table 1

The evolution of the international business development in Ukraine 2015–2018 *

Indicator	2015	2016	2017	2018	Balance		
					2016	2017	2018
Number of economic entities, thousands of entities, of which entities have:	1974.32	1865.53	1805.06	1298.44	-108.79	-60.47	-506.62
- export of goods and services	19.69	21.32	22.48	–	1.63	1.16	–

Indicator	2015	2016	2017	2018	Balance		
					2016	2017	2018
- import of goods and services	32.31	47.76	103.33	–	15.45	55.57	–
Foreign trade turnover, billion USD USA, including volumes of:	98.08	98.47	116.38	129.44	0.39	17.91	13.06
- export of goods and services	47.86	46.01	53.87	59.12	-1.85	7.86	5.25
- imports of goods and services	50.22	52.46	62.51	70.32	2.24	10.05	7.81
Share of GDP, %:							
- export of goods and services	41.89	38.95	46.88	43.66	-2.94	7.93	-3.22
- import of goods and services	41.22	42.04	49.11	48.11	0.82	7.07	-1.00

** Data exclude the temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of temporarily occupied territories in the Donetsk and Luhansk regions.*

Source: calculated by the authors at [4; 11].

According to the State Statistics Service, in 2015–2018 the number of economic entities in Ukraine decreased from 1.97 to 1.3 million units. However, the number of foreign economic operators increased. Thus, the number of exporting entities increased from 19.7 to 22.5 thousand units, and the number of importing entities increased from 32.3 to 103.3 thousand units.

In the study period Ukraine's foreign trade turnover increased from 98.1 to 129.44 million dollars US (31.96%), including exports of goods and services increased from 47.86 to 59.12 million dollars US (23.5%), imports – from 50.22 to 70.32 million dollars US (40.01%).

Another major indicator of international business development is the share of exports in GDP, which characterizes the economy openness. A considerable level of the economy openness has a number of advantages (efficient allocation and use of resources, increasing competitiveness of production, dissemination of world experience: technology transfer, skills, etc.). At the same time, macroeconomic volatility, which is often associated with the economy openness, depends on the competitiveness of goods and services of domestic production in both external and internal markets [1].

Despite the increase in the value of exports and imports, their ratio to GDP (traditional indicators of openness of the economy) has declined over the last three years. Thus, as of the end of 2018, the share of total exports in the GDP structure of Ukraine was 43.66%. At the same time, for example, more than 98% of German small and medium-sized enterprises export their products abroad [7].

The international business development depends on two basic conditions: the internal economic situation in the whole country and its regions and the ability of a particular business entity to exercise the rights to fulfill its business objectives. Thus, problems of development of international business activity can be divided into problems of macro and micro levels.

One of the key criteria for assessing international business is an indicator «Global Competitiveness Index», which characterizes the competitiveness of countries at different levels of economic development.

The most problematic factors for doing business in Ukraine for the Global Competitiveness Index presented in Table. 2.

Table 2

Most problematic factors for doing business in Ukraine by Global Competitiveness Index, 2014–2018

Factors	2014	2015	2016	2017	2018
Ukraine's ranking /number of countries	84 / 148	76 /144	79 / 140	89 /135	83 / 140
Inflation	3,7	8,0	11,5	11,9	16,3
Corruption	15,5	17,8	16,6	14,0	13,9
Policy instability	10,1	14,0	10,6	13,2	12,1
Tax rates	8,4	7,7	8,1	7,3	9,7
Tax regulations	11,0	4,3	7,9	6,8	9,4
Government instability/coups	3,5	10,5	6,4	8,2	8,9
Access to financing	16,7	13,9	12,2	11,2	7,0
Inefficient government bureaucracy	13,4	8,8	8,0	11,4	6,9
Foreign currency regulations	4,2	4,1	7,1	4,5	4,3
Inadequate supply of infrastructure	2,2	0,8	0,9	0,5	2,5
Insufficient capacity to innovate	4,1	1,8	2,3	1,6	1,8
Restrictive labor regulations	1,9	3,4	3,1	2,5	1,7
Inadequately educated workforce	0,8	1,7	1,8	2,7	1,4
Crime and theft	2,5	1,7	1,4	1,6	1,2

Source: compiled by [9]..

The results of the assessment of Ukraine in 2018 showed that the critical «failures» of Ukraine's competitiveness are «State and public institutions» (110th place), «Financial system» (117th place) and «Macroeconomic environment» (131st place). At the same time overall, Ukraine improved its position by 6 points and ranked 83 among 140 countries.

Problems of development of international business activity in Ukraine include [1; 5; 6; 7; 9; 10; 12]:

– prevalence of corruption. According to the Global Competitiveness Index, corruption is the biggest problem for business development in Ukraine after inflation.

The consequences of this problem are significant illegal businesses, the prevalence of illegal schemes and tools of influence, the disillusionment of a large part of entrepreneurs. All of the above threatens the destruction of the system of public power and the leveling of the domestic legal system functioning. In addition, there is a direct and indirect presence crime, criminal attacks, so-called «raiding» and discriminatory behavior (including forged documents);

- lack of an effective mechanism for business support, development and protection;

- limited and non-transparent access to public and communal resources (utilities).

There are no transparent and understandable mechanisms of economic entities access to state and communal resources (land, property, financing) in Ukraine. The manifestations of this problem are in particular excessive complexity, considerable length and cost of procedures for ownership or use (lease) state and municipal property, as well as state and communal property; legislative unsettled amount of related payments (costs of business entities); lack of development tools of public-private partnership, including in the form of concessions; opacity and injustice attached to engineering networks; lack of transparency mechanisms and criteria (reason) for providing state financial support etc.

- ineffective mechanisms for protecting the rights and legitimate interests of business entities. A significant obstacle to the development of international business is the lack of effective legal mechanisms to protect business entities. The consequences of this problem is a distorted application of the law by public authorities, large part of disbelief businesses in the ability of the state to protect their rights and interests in the order and manner prescribed by law, and the high prevalence of illegal customs and practices that do not comply with the legislation of Ukraine;

- excessive regulation of economic activity, namely: high costs of time to carry out official procedures for business starting; significant loss of entrepreneurs resources for property registration. The cost of administrative services during property registration also increased;

- low level of competition in domestic markets. Large concentrations of large enterprises are present in many areas of the national economy, and new business entry rates remain low. In such situation, it is rather difficult to strengthen position for new enterprises in the market of goods and services. The main problems of the competitive environment are that many sectors have a high concentration of firms and oligopoly structures that lead to inflated prices;

- imperfection of the tax system. Current tax system has created favorable conditions for the transition of enterprises to the illegal economy. Thus, due to high contributions to the payroll, a single social contribution, many small businesses maintain double-entry bookkeeping. Although the share of wages and salaries has dropped from 48% in 2010 to 39% in 2017, the share of taxes since 2010 has increased from 12% to 16% [12, p. 15];

– most enterprises in varying degrees hide their income to pay less tax. In 2018, the illegal economy was 30% of official GDP [8], that is, 4.6% of budget revenue was hidden. Although according to the method of «population expenditures – retail turnover» it amounted to 46% (7.36% of taxes not paid);

– inefficient taxation is a major obstacle to the development of the international business sector;

– undeveloped infrastructure for supporting and developing entrepreneurship. Despite the large number of infrastructure objects (business centers, business incubators, technology parks, information and advisory institutions, public associations of business entities), their role in the development of international business activity is still very small in Ukraine;

– low level of population solvency, which significantly reduces the capacity of the markets of most consumer goods and services, trade rather than production orientation of the business sector (in particular, in the export structure, the raw material economy occupies 57%. In 2018, raw materials exports only to the European Union amounted to 70%) [7];

– insufficient regional programs financing of entrepreneurship support and development, small business in particular (non-guaranteed, untimely and irregular);

– underdeveloped mechanisms of financial and credit support and risk insurance of small enterprises, lack of self-financing mechanisms;

– imperfect control over the use of funds allocated to enterprises, so that the resources spent on improper purpose;

– lack of a well-established system of effective interaction between large and small businesses at the local (regional) level;

– lack of corporate social responsibility.

Ukraine's low position in the Global Competitiveness Index indicates that institutional conditions for international business remain unfavorable, although there are tendencies to improve the situation.

An indication of the effectiveness of economic deregulation reforms is the improvement of Ukraine's position in the following rankings:

– «Doing Business 2019», in which compared to the result in 2016 – 12 positions rose to 71 places among 190 countries (Table 3).

Table 3

Ukraine's position in the ranking «Doing Business» in the category «Trading across borders», 2016–2019

Indicator	2016	2017	2018	2019
Ease of doing business rank / number of countries	83/189	80/190	76/190	71/190
Trading across borders (rank)	109	115	119	78
Score for trading across borders (0–100)	63,72	64,26	64,26	77,62

Indicator	2016	2017	2018	2019
<i>Time to export</i>				
Documentary compliance (hours)	96	96	96	66
Border compliance (hours)	26	26	26	6
<i>Cost to export</i>				
Documentary compliance (US\$)	292	292	292	192
Border compliance (US\$)	75	75	75	75
<i>Time to import</i>				
Documentary compliance (hours)	168	168	168	96
Border compliance (hours)	52	72	72	32
<i>Cost to import</i>				
Documentary compliance (US\$)	292	212	212	162
Border compliance (US\$)	100	100	100	100

Source: compiled by [3].

In particular, in the «Trading across borders» category, Ukraine ranked 78th, improving its position by 31st over the last four years. The time for border and customs control was reduced by 20 hours, for processing of documents for export – by 30 hours, for import – by 72 hours. The cost of export paperwork decreased by \$ 100 USA, for imports – \$ 130 USA.

– Corruption Perceptions Index 2018, which compared to the result in the previous period – 10 positions rose to 120 places among 180 countries (Table 4).

Table 4

Ukraine's position in the ranking «Corruption Perceptions Index», 2012–2018

Years	Score	Rank	Number of countries
2012	26	144	176
2013	25	144	177
2014	26	142	175
2015	27	130	168
2016	29	131	176
2017	30	130	180
2018	32	120	180

Source: compiled by authors [2].

The growth of Ukraine's indicators was due to the business situation assessment. The introduction of the automatic refund procedure of value added tax, expansion of the ProZorro work spheres and ProZorro systems, sales and activities of the Business Ombudsman Institute [2] had a positive impact.

Conclusion. It can be argued that today the main problem of international business activity development is in the sphere of public administration quality. The

illegal economy is the result of a corrupt government system. Problems of public administration are systemic corruption and, consequently, selective enforcement of legislation. In this situation, the rules of the legislation as such largely lose their meaning and there is no reason to hope for a better situation only through a change of legislation. Therefore, improvement of legislation as a tool to improve the business climate, perceived inefficient and not productive.

Nowadays, the Ukraine state policy on international business activity is basically «low-reactive», ie it is a reaction of public authorities either to external stimuli or to persistent business demands. This «reactivity» state policy defines low efficiency policies and low efficiency of state regulation. The lack of an effective public policy strategy leads to the stochastic emergence of new regulators and to the lack of progress in the real improvement of the business climate in Ukraine.

One of the few effective ways of improving the business climate in Ukraine today is deregulation, which should take the form of abolishing illegal regulations and quantifying the cost of existing regulations by OECD and EU methods (in particular, by the M-Test method). Regulatory impact analysis (first and foremost, a clear definition of a regulatory problem, setting quantitative indicators of regulatory performance based on a quantitative benefit-cost analysis) should precede the emergence of a regulatory project and not accompany it afterwards. All other entrepreneurship problems are derivative. Trying to solve derivative problems is inefficient and ineffective without addressing the root causes. However, the derivative problems identification as key ones is an example of «false goals» and imitation of development. It takes time and resources to solve these problems, but the situation does not change and even theoretically cannot be improved.

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