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Institutional paradigm of the Ukrainian economy competitiveness

Abstract: The attempt to make the foundation of the institutional paradigm of the Ukrainian economy competitiveness, that is been transformed in the direction of the market economy is made. The quality of the institutional environment in Ukraine is analyzed, and the pain points of institutional development are revealed.

Keywords: institutional paradigm, institutional competitiveness, national economy, transformation.

National competitiveness is the basics task of the state, and the success of its solution resulted primarily in level and quality of living standards of the population and the economic security of the country –in the international scale. The task to ensure the competitiveness of Ukrainian economy is complicated because of the transformation process in the direction of an efficient market. Transformation processes has made the national economy equilibrium and very vulnerable to the environment changes that affects the level of its international competitiveness. Difficulties connected with the transformation of the Ukrainian economy to the market, caused first of all by the lack of the adequate economic theory. Basic theoretical knowledge of the Ukrainian reformers has been based on the west past experience and scientific thought, which had been formed in different conditions and other realities. We consider the neoclassical theory, particular one of its directions – monetarism. The methodology of reforms has been based on the works of Smith, Ricardo, W. Eucken, M. Castells, G. Myrdal, M. Porter, I. Ansoff. In the national development the emphasis has been made on the "invisible hand of the

market", which regulate everything. Therefore the reformers has made a lot of errors and failed the fact that, in practice, the famous "invisible hand of the market" cannot regulate all of the processes in the national economy, such as the financing and development of the social sphere. The main theoretical error of economic reforms and their ideologues is the ignorance of the achievements of the modern economic thought. The arguments of the alternative directions – neo-Keynesianism, institutionalism – has been ignored or specifically presented in caricature. According to the well-known Russian Academician Dmitry Lvov, institutions – that's the word to decrypt the metaphor of Adam Smith [1, p.3]. Transition to the market without the creation and development of adequate quality institutional environment, the facilitate on the early stages the priority development of public institutions, and after – the market institutions, was bound to lead (and has led) to the appearance of wild capitalism – with the bazaar instead of the market, criminal instead of the state, total impoverishment of the population instead of forming an independent middle class. As a result of this error, the competitiveness of the Ukrainian economy has plummeted.

To overcome the adverse effects of the reforms and adequately to respond to the challenges of the present, to develop strategies to ensure competitiveness of the Ukrainian economy, that is been transformed to an efficient market, it is necessary to fill the gap in theoretical knowledge. The efficient research tool for interpretation of transition processes of the economy is required. Institutionalism (but not the only one), could be such instrument, whose ideas have to form the basis of the institutional paradigm to ensure the competitiveness of the national economy in transition. The Ukrainian scientists published series of monographs specifically devoted to the institutional economic theory: Arhireev S.I, Geyts V. M, A. Gritsenko, Dementjev V.V., Lipov V.V, Prutskaya E.A, Pustovoit R. F, Yakubenko V.D, Jaremenko O.L, Chausovsky A.M, Chukhno A. A. Unfortunately, there is a lack of targeted systematic researches aimed to create the institutional paradigm of national competitiveness of Ukraine.

Therefore, the purpose of this study is to develop a methodological framework of institutional support of the Ukrainian economy competitiveness, that is been transformed to the market economy.

Before we concern the institutional paradigm of national competitiveness, it is necessary to define the institutional competitiveness of the national economy, to consider its main components.

Institutional competitiveness is set of the properties, methods, formal and informal rules of behavior of economic entities and institutions, that give them a the advantages in the competition. As the concept of competitiveness initially concludes the term "capacity", it gives us a reason to talk about the fact that competitiveness is a property of the subject, defined by the potential to successfully compete in the market. Institutional competitiveness - is, firstly, the ability of institutions to the competition, and, secondly, it's the creation of the favorable conditions and the institutional environment for the development of the effective competitive entities. In our view, this kind of "ability" is directly connected not only with the properties of the subject, but also depends on the institutions and institutional manifestations of the economic phenomena that contribute either slow down the processes of competitive potential formation of the subjects, as well as favorable conditions for their development.

These statements allow us to make a conclusion that allocation of institutional competitiveness as a common conceptual framework of competitiveness is legitimately. As an institutional component provides the basis for its formation, development, and forms the restrict framework, that has become a kind of incentive to the transformation of the economic system as a whole.

Institutional competitiveness of the national economy in a broad sense and can be represented as a set of two polar components:

- firstly, the competitiveness of business entities of national economy, formed and developed under the influence of instruments, that stimulate and constraint the existing of institutions;

– secondly, the competitiveness of the national institutions of the economy, that is been evolving under the influence of both institutional and socio-economic factors.

The competitiveness of the national economy insure the protection of its market share, and its ability to compete depends on its key "attributes" that determine the attractiveness of the entire country as a placement of institutions and "actors", and of the strengths and weaknesses of economic agents.

The main components of the institutional competitiveness of the national economy are:

- institutions-actors (state, region, industry, municipalities, businesses, households, non-governmental organizations);
- institutes-objects (formal and informal institutions, market self-regulation);
- institutional environment (the hierarchy of the "rules of the game", reflecting the socio-economic, political, and institutional relations between economic entities of different levels);
- institutional mechanism of the competitiveness (competition potential, competitive risks, regulatory framework, investment activity, government incentives).

Institutional mechanism of competitiveness is a system of economic relations between subjects in accordance with a general accepted rules and norms of economic organization of the economic system and based on traditional and legitimate demands of public institution. In this regard, the author developed a process flow diagram of the institutional competitiveness of the national economy, that present a cyclic transformation of economic entities of the country to the institutional facilities of the national economy on the basis of the institutionalization and processes of networking under the influence of conditions and factors of the institutional environment that is been formed as a result of of the interaction of basic and specific institutions, consisting of formal and informal rules of economic agents behavior.

Functional and structural and logical aspects of study of the institutional competitiveness mechanism include the identification of the nature form

specificity, the definition of the boundaries and scope of the internal and external institutional environment, coordination, processes of networking and institutionalization of economic entities, the volume of the existing and potential capacity, its improvements, and institutional contradictions, risks and costs associated with the violation and of institutional rules and regulations, etc.

One of the main factors in the development and improvement of competitive advantages in the modern conditions is the institutional environment. The institutional environment of the economic system consists of the hierarchically ordered and systematically established networks, standards, frameworks and regulations that implement the sustainable socio-economic relations of economic entities, which has been formed during competitive struggle. The transformation of the institutional environment reduce the institutional risks and transaction costs, increasing the potential for economic entities and functioning institutions, increasing the total national income.

The analysis of the quality of the institutional environment in Ukraine that has been conducted shows the following. Over the last 13 years the Global Competitiveness Index of the country has significantly deteriorated, if in 2000 Ukraine ranked 56th, in 2013. – 84 [2]. An institutional component of competitiveness index has made the big influence on the negative trend: the deterioration occurred in the 66 position. In 2001 the institutional component of the Ukrainian competitiveness ranked 71, in 2011. – 131 of 135 countries, in 2012 – 132 of 144 countries, and in 2013 – 137 of 148 countries. Non-thought state transformation processes in the Ukrainian economy combined with the effects of global crisis. This led to the resonance, which has been resulted in the sharp deterioration in the quality of institutional development, as shown in the table 1.

Table 1 – The dynamics of the structure of the institutional component of GCI of Ukraine during 2009-2013. [2]

The Global Competitiveness Index in detail (1st pillar: institutions)	Years				
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
1. Property rights	123	135	137	134	143
2. Diversion of public funds	98	129	126	117	122
3. Irregular payments and bribes	127	127	134	133	130
4. Judicial independence	119	134	134	124	139
5. Burden of government regulation	91	125	130	135	137
6. Efficiency of legal framework in setting disputes	—	138	138	141	144
7. Efficiency of legal framework in challenging regs	—	138	135	139	146
8. Ethical behavior of firms	118	130	126	124	130
9. Strength of auditing and reporting standards	113	128	133	122	130
10. Protection of minority shareholders' interests	129	138	138	141	146

A comparison of the dynamics of the Global Competitiveness Index of Ukraine during 2000–2013 well as the main components of the institutional parts of the GCI of Ukraine during the period of 2009-2013 allowed concluding that the poor quality of the institutional development of the country is the main obstacle to ensure a high level of national competitiveness. The most problematic issues are the implementation of government regulations in the field (146 out of 148), protection of minority shareholders' interests (146th), efficiency of legal framework in setting disputes (144th), property rights (143rd). These figures indicate the absence of an effective mechanism for the implementation of institutional norms in the country. In the Ukrainian reality many of the adopted laws remain a formality, initiated reforms has not carried to completion, and the institutions being bad, sometimes has not fulfill their functions. Institutions are diverse and prone to problems that require different time-consuming. Some could be solved by the stroke of a pen and implemented in a few months, others, that are associated with well-established traditions and rules, require a change of

generations. Therefore, implementing the change, it is necessary to develop a mechanism that would allow making these changes sustainable over time. Solving the problem of institutions, it is important to remember that the ultimate goal is not to improve the institutional development, but the positive economic effects that arise due to the action of strong and transparent institutions (increase investor confidence in the country, improving the investment climate, competitiveness and growth of the national gross income). Therefore the strategy priority for Ukraine's competitiveness in the next few years should include high-quality institutional development.

To develop the institutional paradigm of the national competitiveness its necessary to consider the fact that «... in last two decades the new types – information and global economy has appeared...» [3, p.81]. Knowledge in the era of the «knowledge economy» is becoming the key resource. For this reason, the national competitive advantage must be created on the basis of resources, received the value in the country, and not on the resources acquired from outside. The set of resources, that create competitive advantage, is been reducing, if we recognize that they are no longer carriers, if they are owned by a large number of competitors. It can be concluded that in order to have a source of competitive advantage, resources should not be easily accessible to copy by competitors [4, p.237]. Focusing on the resources that are created in the country and could be hardly copy by competitors derive knowledge on the position of the main source of competitive advantage [5, p.90].

Thus, in the era of the «knowledge economy» the creation of knowledge and transfer it to the level of the state as a whole should be conducted in an organized form through special institutions (institutions of knowledge generation). Investing in the creation of knowledge generation network institutions as the special institutions, that make the reproduction of the knowledge assets, will allow to create a national competitive advantage in the era of the «knowledge economy».

«Knowledge economy» requires structural changes in national economies and their institutional systems. Large institutions, based on the planning, or the

state, which is run by the bureaucracy, are ineffective in such economy, which is founded on innovation. For quick innovative development of the national economy, which will provide high level of competitiveness, the state have to have the coordinating role, and transfer all functions of innovate implementation to the medium and small businesses, involve to the process the scientific research organizations.

The above results of the study allowed to attempt to formulate the basic tenets of institutional paradigms of the Ukrainian economy competitiveness, that is been transformed in the direction of an efficient market:

1) Creation and quality development of institutional environment, which stimulates public and private business investment to the intellectual capital of the nation and the institutions of knowledge generation.

2) High-quality institutional development of environment should be carried out under the auspices of the state by creating of knowledge generation network institutions as special institutions, which carry out the reproduction of intangible resources (knowledge assets) and constitute the formation of a national innovation system. The network should include information structures, technology parks, venture capital firms, business incubators, technology transfer centers, intellectual exchange.

3) For a successful innovation development of Ukraine to ensure its high level of competitiveness in the era of the "knowledge economy", it is necessary to carry out institutional changes that will ensure the transparency of the institutions, eliminate excessive corruption, criminalization and bureaucratization. In this case it is important to leave the leading and coordinating role for the state, and to transmit all the functions of innovation to medium and small businesses, and consider the realities of the knowledge economy to involve the knowledge generation institutions in the process.

4) Implementation of economic protectionism policy by the state, as a system of government measures to protect domestic industry from foreign competition as long as it becomes competitive. This can be achieved through: the

liberalization of export in accordance with the principle of "free trade" through financial support; provision of information and analytical services to exporters; public investment in technological re-equipment of industrial enterprises; reduce of duties on imported equipment for the industry; creation of legal and economic conditions for joint ventures.

The author made the conclusion that in the economy, that is been transformed in the direction of an efficient market, national competitiveness strategy should be based on a fundamental theoretical framework of the institutional paradigm. The basis of this paradigm should make postulates about the priority of the state economic protection policy and the qualitative development of the institutional environment under the auspices of the state due to the elimination of corruption, criminalization and the bureaucracy and the creation of an enabling environment, facilitating the investment, both state and private in the intellectual capital of the nation and generate knowledge institutions.

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