

THE COMPETITIVENESS OF UKRAINE AND POLAND

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1. Introduction

Studies on competition occurring between locations have evolved over time. Initially, the paradigm of competition was focused on the comparative advantage. As changes in the economic environment have occurred, comparative advantage is no longer considered to be a sufficient solution for many industries. Instead, a new approach was introduced which is based on a new type of advantage called the competitive advantage. The difference between them relates to the issue of costs. Comparative advantage is based on the access to specific expenditures, their size and associated costs, while competitive advantage revolves around the productivity of their use and is closely linked to conditions in which competition occurs [1, p.402–404].

Competitiveness is a term that may refer to many areas of economics. One may look into the competitiveness of firms; others analyze, with great scrutiny, the competitiveness of industries, regions, and nations. As it was stated in one of the very first definitions of competitiveness, it is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while at the same time maintaining or expanding the real incomes of its citizens [2, p.70]. Porter believes that competitiveness is built based on differences rather than similarities between countries, regions, and companies [3, p.41]. Competitiveness can be analyzed from different perspectives. Some consider two interrelated dimensions of competitive potential and competitive position of an economy which is related to its productivity [4, p.3].

The World Economic Forum has introduced a complex measure that has been praised by many as a solution to grasp many dimensions of factors influencing competitiveness of national economies. The Global Competitiveness Index (GCI) and its 12 pillars of competitiveness are used to assess competitiveness of national economies and compare them irrespective of their level of economic development [5].

The aim of this paper is to compare the competitive potential of Ukraine and Poland based on the methodology of the WEF as well as their competitive position based on data on GDP, GDP per capita, and international trade. The reason of such comparison is to show plausible ways to strengthen international standing of both economies, their advantages and disadvantages in such areas as: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

Competitiveness as a concept emerged in economics in the 1970s. According to some researchers, its formation should be associated with the business specifics of that time, when due to the energy crisis, a significant change influencing highly developed economies occurred [6, p.77]. At the same time an intensified competitive struggle between businesses in the United States and Japan was in place [7, p.9]. The rivalry between these two economies was exacerbating because of erosion of the comparative and competitive advantages of the United States compared to Japan [8, p.32].

Thus, the reason for the initiation and stimulation of interest in the area of competitiveness can be associated with a clash that occurred between the competitive reality of the second half of the twentieth century, especially the 1980s, with the hitherto prevailing trade theory. During this period, special attention was put to the Japanese-American rivalry as a consequence of the expansion of Japanese companies and their success in global markets [9, p.56–60].

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In addition, many countries have promoted mechanisms of state interference in international trade, which involved, inter alia, support of certain domestic industries. It should be emphasized that the concept of competitiveness is therefore derived from the discussion of real life phenomena [10, p.805].

The development of research focused on competitiveness can also be associated with the appointment of the President's Commission on Industrial Competitiveness by Ronald Reagan. The Commission was analyzing the situation of the U.S. in the world, so that recommendations could be formulated from which representatives of various communities would benefit. Its main aim was to improve the competitiveness of the U.S. economy.

Two dimensions can be distinguished when studying competitiveness, which are competitive potential and competitive position. Competitive potential can be considered as a set of resources at the disposal of a competing entity. By using the right mix of strategies to compete competitive potential is transposed into competitive position, which can be associated with the output, in other words – the result of competition. Competitive position is therefore a narrower concept than competitive potential. Thanks to the disposal of a particular set of resources that affect the process of competition, and through the application of instruments as part of a competitive strategy, businesses and economies obtain their competitive position.

2. Competitive potential of Ukraine and Poland

Measuring competitiveness is a complex activity because of different perspectives on the issues related to it. The differences that occur can be associated, among others, to different levels of analysis that may be adopted in this field.

Thus, one can take several measures into consideration when performing analysis of competitiveness. Their selection depends on many factors, i.e. the employed working definition of competitiveness, and should correspond with the aspect of competitiveness recognized in it. As a result, competitiveness can be measured with reference to international trade, economic performance, or by employing subjective measures, or various combinations of the above.

Interest on the subject of competitiveness at a national level implies undertaking work on the development of methods of its measurement, which results in numerous research aimed at creating rankings of competitiveness of countries. On the one hand, these measures can be clearly aimed at assessing competitive potential and as such be the core of the research. On the other hand, certain dimensions of competitiveness and its determinants are analyzed in the studies of other economic phenomena.

One of the most cited rankings of competitiveness of national economies is the Global Competitiveness Report (GCR), published by the World Economic Forum. The first edition of this report was published in 1979. Since then, a wide range of authors has contributed to the findings of the report. As a consequence, many changes were introduced in methods employed in the research, as well as, the number of countries covered by the report has increased significantly. The GCR is published annually with the purpose of analyzing which national economies meet the needs of its residents by providing them with appropriate levels of prosperity [5].

The current issues of the Global Competitiveness Report are based on a presumption that competitiveness of an economy depends on 12 pillars of competitiveness divided into three groups: Basic Requirements (1. Institutions; 2. Infrastructure; 3. Macroeconomic environment; 4. Health and primary education), Efficiency Enhancers (5. Higher education and training; 6. Goods market efficiency; 7. Labor market efficiency; 8. Financial market development; 9. Technological readiness; 10. Market size) and Innovation and Sophistication Factors (11. Business sophistication; 12. Innovation).

In the 2013/2014 edition of the Global Competitiveness Report Poland was ranked as the 42nd most competitive economy in the world. At the same time Ukraine was ranked at the 84th position.

During the last eight years we have seen Poland's score in the ranking gradually progressing before and somewhat stabilizing after the 2010/2011 edition.

At the same time Ukraine has experienced its ups and downs (most visible peaks in the scores took place in the 2008/2009 and 2012/2013 editions of the Report) (see Fig. 1). Given a maximum score of 7, the difference between Poland and Ukraine in the Global Competitiveness Index is visible (with Poland given 4.46 and Ukraine given 4.05 points in 2013/2014).

These two countries belong to different stages of development. Ukraine is, according to the WEF methodology, a country driven by efficiency. In other words, it is a country where productivity surpasses the productivity in factor-driven economies. Based on the theory of economic development such country should experience a rise in wages and focus on development of efficient ways of production and increase the quality of its offer [11, p.10]. Poland is one step further in the stages of development as it belongs to a group of economies in transition between the efficiency-driven stage and the innovation-driven stage. The innovation-driven stage, if reached, would be the highest stage that an economy can be classified into.

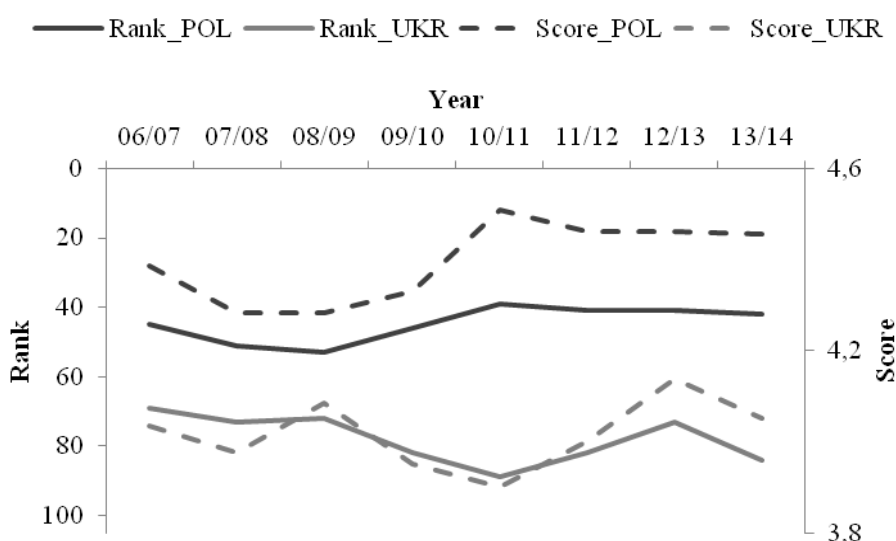


Fig. 1. The GCI ranks and scores for Poland and Ukraine in 2006/2007 and 2013/2014

Source: own elaboration based on [12]

In the case of Poland, when comparing data on the 12 pillars of competitiveness between the results obtained in 2006/2007 and 2013/2014 editions of the Report, Poland has progressed in the case of eight pillars and declined in the case of four (macroeconomic environment, health and primary education, labor market efficiency, innovation); (see Fig. 2).

In 2013/2014 the scores are highest in health and primary education, market size, higher education and training as well as macroeconomic environment. As a country in transition which should be heading towards the innovation-driven stage of development, Poland is yet to experience a significant improvement within the pillars depicting business sophistication and innovation (pillars 11 and 12). The strongest characteristics of Poland within the business sophistication pillar is the quantity of local suppliers (32nd in the world) while in the case of innovation it is the number of PCT patents (40th in the world).

Interestingly, some of the lowest ranks within the indicators chosen to assess competitiveness represent the first two pillars, i.e. institutions and infrastructure. The weakest links correspond to public trust in politicians, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations (all of the above referring to the pillar of institutions), quality of roads and quality of air transport infrastructure (referring to the pillar of infrastructure).

Some other examples of weaknesses of Poland are: general government debt, effect of taxation on incentives to invest, number of days to start a business, hiring and firing practices, effect of taxation on incentives to work, country capacity to retain talent, country capacity to attract talent, venture capital availability, availability of latest technologies, firm-level technology absorption, state of cluster development, control of international distribution, company spending on R&D and government's procurement of advanced technological products.

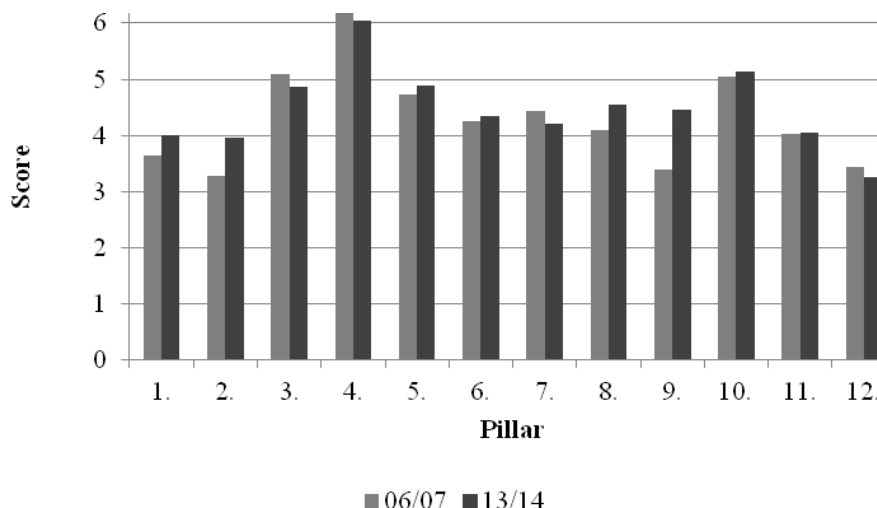


Fig. 2. A comparison of pillars of competitiveness for Poland in 2006/2007 and 2013/2014

Source: own elaboration based on [12]

The changes in Ukraine's pillars of competitiveness between the two editions of the Global Competitiveness Report in question were heterogeneous as well (see Fig. 3). The most visible progress was achieved within the pillars of: infrastructure (4.07 compared to 3.13), higher education and training (4.75 compared to 4.16) and technological readiness (3.28 compared to 2.53).

At the same time seven other pillars were decreasing in scores (the uttermost in the case of financial market development: 3.46 compared to 4.11). Overall, according to the WEF methodology, Ukraine's competitiveness is especially based on two pillars: health and primary education and market size. Among the indicators pertaining to these two pillars particularly high scores are given to quality of primary education as well as domestic and foreign markets indices. That is also the case of Poland. Another common feature relating to the decomposition of pillars of competitiveness of Poland and Ukraine is the fact that institutions, a seemingly basic requirement, is the one in which both countries are lagging behind. When compared to other nations in the ranking, Ukraine received lowest ranks referring to institutions (137th among 148 economies), macroeconomic environment (107th), goods market efficiency (124th) and financial market development (117th). In the current edition of the Report (2013/2014) Poland surpasses Ukraine in all pillars but one, which is infrastructure. A very close score to the one of Poland is given to Ukraine when it comes to the labor market efficiency pillar, whereas a large difference in favor of Poland can be seen in the case of institutions, financial market development and technological readiness.

In the current issue of the Global Competitiveness Report (13/14) both Poland and Ukraine have been given lower ranks than the previous year. For Poland (42nd compared to 41st) the difference was not as significant as in the case of Ukraine (84th compared to 73rd). Both editions of the Report were led by Switzerland, Singapore and Finland.

Poland also surpasses Ukraine in the case of another effort to create a global ranking of economies, in which various topics are considered to illustrate employed regulatory reforms. In the last edition of the Doing Business report, which identifies economies achieving largest improvements, the ease of doing business in Poland (45th) is much greater than in Ukraine (112th).

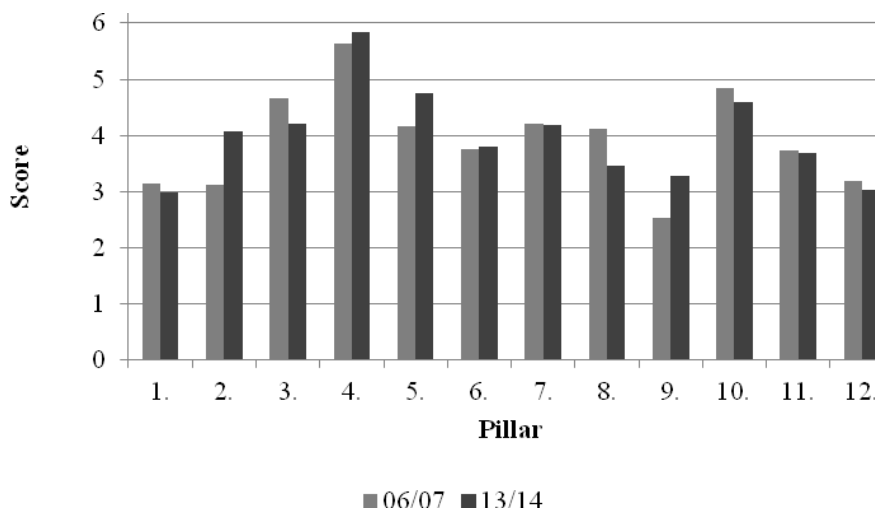


Fig. 3. A comparison of pillars of competitiveness for Ukraine in 2006/2007 and 2013/2014

Source: own elaboration based on [12]

However, Ukraine has been included in a group of countries that experienced the most significant change in areas measured using the Doing Business methodology. In 2012/2013 the areas that affect enterprises in the case of which reforms were introduced concerned: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, paying taxes, trading across borders and resolving insolvency. The only areas where no significant change was observed were protecting investors and enforcing contracts [13, p.9]. Over the results published a year before, Poland had narrowed the most the gap with the regulatory frontier, and is now considered as a high-income economy [13, p.15].

3. Competitive position of Ukraine and Poland

Several common features of Poland and Ukraine can be pointed out when it comes to assessing their competitive potential based on the methodology developed by the World Economic Forum. The overall appraisal of this dimension of competitiveness can only be executed in the favor of the former mainly due to the fact that different levels of economic development can be attributed to each of them.

Apart from competitive potential an analysis of competitiveness of a national economy should also be carried out by focusing on the results of competition. In other words, one should take competitive position of an economy under consideration. As such, national competitiveness can be evaluated by looking, inter alia, into gross domestic product, gross domestic product per capita as well as trade.

Tab. 1. GDP, GDP per capita and trade of Poland and Ukraine in 2004–2012

Indicator	Country	Year								
		2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP*	Poland	253	304	342	425	529	431	470	516	490
	Ukraine	65	86	108	143	180	117	136	163	176
GDP per capita**	Poland	6620	7963	8958	11157	13886	11295	12302	13382	12708
	Ukraine	1367	1829	2303	3069	3891	2545	2974	3576	3867
Trade***	Poland	69	77	75	83	84	84	79	86	91
	Ukraine	113	115	102	96	95	102	94	104	115

* – billion, current USD, ** – current USD, *** – % of GDP.

Source: own elaboration based on [14]

The difference in GDP per capita levels of the two countries is quite substantial. The gap between these nations is however diminishing. In 2004 Polish GDP per capita was more than five times higher than the one in Ukraine and in 2012 Polish GDP per capita was just only more than three times higher than the one in Ukraine (see Tab. 1). The well-being of citizens in both countries is at the same time progressing as the GDP per capita in 2012 compared to 2004 was up by 124% in Poland and by 269% in Ukraine. The overall gross domestic product in both countries has also increased during the last decade. Between 2004 and 2012 it was up in Poland and Ukraine by 126% and 252% respectively. Differences in the competitive positions of both economies result among others from the current stages of their development.

Trade is a common measure of competitiveness of economies as theory of competitiveness stems from the trade theory. An apparent difference between the trade of Ukraine and Poland is the fact that trade constitutes a larger share of gross domestic product in the case of the former (see Tab. 1). The value of Polish exports is greater than the value of exports of Ukraine (see Tab. 2). Overall, Polish products are more competitive globally than their Ukrainian counterparts.

Tab. 2. Trade of Polish and Ukrainian products in 2010–2012 [thousand USD]

Indicator	Country	Year		
		2010	2011	2012
Exports	Poland	157064948	188105090	179603599
	Ukraine	51430286	68393034	68684191
Imports	Poland	174127590	209191546	191430112
	Ukraine	60737135	82607537	84657016

Source: own elaboration based on [15]

However, if looking further into the flow of products outgoing and incoming to both economies, different patterns can be observed. Within Ukrainian exports to the world iron and steel products stand for more than 20% of overall exports in 2012, followed by cereals (10%) and animal, vegetable fats and oils, cleavage products, etc. (6%). At the same time top three export categories in Poland are: machinery, etc. (13%), vehicles other than railway, tramway (11%) and electrical, electronic equipment (11%) [15]. Consequently, as these nations have a different global standing in different sectors of the economy, their competitiveness should also be thoroughly analyzed at a sectorial level, rather than as a whole.

4. Conclusions

As both countries are still working on transforming their economies according to the expectations directed towards free-market economies, the path that they follow could be similar due to their close proximity as well as many factors of socio-economic type among others. Poland is clearly ahead of Ukraine when it comes to establishing its competitive advantage and achieving advanced economy status in the global environment. However, the profile of their pillars of competitiveness is to some point convergent as presented in this paper. Based on the World Economic Forum methodology one can look for similarities as well as differences existing in the context of competitive potential and competitive position. Ukraine is experiencing some relatively meaningful changes of economic nature, whereas Poland seems to have lost recently its economic development momentum. Each of the analyzed economies should focus on finding the right way to establish, maintain and develop their competitive advantage. As Poland tries to become an innovation-driven economy and Ukraine wants to enhance its status as an efficiency-driven one, they should focus on strengthening these factors of their competitiveness potentials that are critical for their economic progress. Further development of these economies is yet to be witnessed if they continue their efforts to be viable competitors to their neighbors and other countries.

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Summary

Each economy and each enterprise is focused on winning rivalry with its competitors. They can achieve this goal through development and maintenance of their competitive advantage. Nowadays, regional and national economies compete in an ever so fast changing global environment. The World Economic Forum (WEF) created a system of measuring competitiveness that uses 12 pillars of competitiveness. The ranking based on this methodology is published annually and covers most countries in the world. It allows to compare the competitiveness of national economies, which are grouped according to their stage of development. Within the ranking two neighboring countries – Ukraine and Poland – receive ranks relatively distant to one another. This is due to various reasons of economic, legal as well as political nature amongst others. This paper aims at characterizing differences in their competitive potential that could allow researchers and politicians to unveil reasons of differences that occur between these economies regarding their competitive positions.

Key words: competitiveness of firms, competitiveness of industries, competitive potential, GDP, WEF, global markets, economy.

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