

# The analysis of the problems of institutional and economic environments influence on enterprises activity in Poland and Ukraine

El análisis de los problemas de los entornos institucionales y económicos influye en la actividad de las empresas en Polonia y Ucrania

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## Abstract

The result of entrepreneurial activity is not only the growth of gross domestic product but also increase the competitiveness of enterprises and the national economy. Poland has achieved high rates of economic growth by accessing the European Union market and has been integrated with international manufacturing networks. Ukraine has been taking strategic decisions in crisis program directions. A crisis is a good moment for a profound change in economy orientation towards qualitative changes and an emphasis on innovation factors to increase its competitiveness.

**key words:** competitiveness, country competitiveness' level assessment

## Resumen

El resultado de la actividad empresarial no es solo el crecimiento del producto interno bruto, sino también el aumento de la competitividad de las empresas y la economía nacional. Polonia ha alcanzado altas tasas de crecimiento económico al acceder al mercado de la Unión Europea y se ha integrado con las redes internacionales de fabricación. Ucrania ha estado tomando decisiones estratégicas en las direcciones del programa de crisis. Una crisis es un buen momento para un cambio profundo en la orientación de la economía hacia cambios cualitativos y un énfasis en los factores de innovación para aumentar su competitividad.

**palabras clave:** competitividad, evaluación del nivel de competitividad del país

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## 1. Introduction

The result of entrepreneurial activity is not only the growth of Gross Domestic Product (GDP) but also increase the competitiveness of enterprises and the national economy as a whole. In general terms, competitiveness reflects the ability of the economy to compete on world markets. Sometimes it is defined as the ability to long-term economic growth. High-quality determinants associated with the adequacy of the institutional environment and macroeconomic environment characteristics become more and more decisive for competitiveness. Indicators relating to science, innovation and the use of human capital, which reflect the level of countries' technological and innovation competitiveness, are very important.

An important part of the research in the context of this article is the definition of dependencies between institutional environment' quality and business activities results, which are manifested through national economy competitiveness growth.

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## 2. Methodology

In order to determine the impact of the institutional and economic environment on the performance of the national economy of Ukraine and Poland, competitiveness assesses approaches of the World Economic Forum (WEF) and the International Institute for Management Development (IMD) are used in the article. The methodologies used by these institutions are designed in such a way that the level of competitiveness of the national economy can be estimated using a single indicator calculated on the basis of a complex algorithm that takes into account several hundred factors. They take a much closer look at the role of the macro environment and the international environment in shaping international competitiveness. The practical value of this approach is high, but the accepted classification of factors, in particular, the lack of separation between them, indicates its imperfection. This way of assessing international economic competitiveness is in line with the accepted definition of competitiveness but does not focus solely on the assessment of the microeconomic environment, but also covers factors that relate to both enterprises (enterprise strategies) and those in the micro and macroeconomic environment.

Different methods were at the base of creating international competitiveness ratings. Due to IMD World Competitiveness Rankings 2018 Results (2018), IMD in Lausanne used 2/3 of official statistics and 1/3 of expert assessment. To characterize national economies' competitiveness 314 indicators were used. In so formed ranking only 60 countries were included. Since 2001 IMD changed the classification model of competitiveness factors, by dividing them into four groups, that gave it greater impartiality and objectivity:

- 1) economic situation (national economy, international trade, foreign investments, employment, prices);
- 2) effectiveness of the government (public finances, fiscal policy, institutional structures, business structures, a legislative field for enterprises, education);
- 3) effectiveness of management (productivity, labor market, financial markets, management practices, globalization impact);
- 4) infrastructure (basic infrastructure, technological infrastructure, scientific infrastructure, human health and the environment, values system).

WEF methodology is more liberal. Contrary to IMD due to WEF Annual Report 2017-2018 (2018) it consists of one-third of statistics and two-thirds of expert evaluations. More countries are included in the WEF methodology.

According to expert opinions of WEF, the competitiveness of the national economy includes 12 issues, by which Global Competitiveness Index (GCI) is calculated: institutions; infrastructure; macroeconomic environment; health and primary education; higher and vocational education; efficiency of commodity markets; labor market efficiency; level of financial market development; technological readiness; market capacity (size); business environment maturity; innovation.

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### 3. Results

#### 3.1. The importance of institutional and economic conditions for the development of the enterprise

Results of country's entrepreneurial activity are under the influence of various formal and informal institutions related to the functioning of law, or culture. As Baumol (1990) had noted, the efforts of entrepreneurs had depended on the functioning of economic, political and legal institutions. These efforts could be productive or unproductive while depending on the results of institutions' activities. The results of enterprises' individual activity could be defined by profit at micro-level, but such an effect did not always take place at macro-level, generating economic growth.

The question of what determines entrepreneurship is very important. Sufficiently many countries could achieve significantly higher economic growth, if they had a favorable economic and institutional environment, as all business entities were influenced by institutions. Bowen and De Clercq (2008) proposed, that government policy could be much more productive if institutions were adequately designed and were properly performing their functions, but not if the government was trying to exert a direct impact on business activity. In this way the state as an agent formed a proper institutional environment and directed the entrepreneurial spirit in a productive way, which provided economic growth.

The institutional environment could act as a system of incentives for entrepreneurs in productive or unproductive or even destructive way. In the situation where benefit from illegal business exceeded costs, it would be the benefit for entrepreneur, but it would not contribute to macroeconomic growth. So, if the benefits of illegal business exceeded their costs, the entrepreneurial activity would tend to be more destructive.

However, if the institutional environment fostered productive entrepreneurship, such as the one bringing benefits not only at the micro level but also at the macro level, it would dominate. Imperfect or ineffective legislation could push to profit searching behavior out of the market rules. Entrepreneurs could lobby for some decision or seek subsidies in order to prove the social or economic importance of their activities. Due to such actions, they achieved additional profit that they would not obtain in normal market conditions.

North (1990) also contributed to the institutional environment's impact on entrepreneurial behavior. He considered entrepreneurs to be the main agents of change. Organizations would adapt their strategies and activities to the opportunities and limitations created for them by formal and informal institutions.

Dakhli and De Clercq (2004), Hall and Jones (1999), Kwok and Tadesse (2006) studied the problem of institutional and economic influence on entrepreneurial activity. Bowen and De Clercq (2008) on the base the Global Entrepreneurship Monitor of (GEM) report indicated the reverse dependence between the country's corruption level and the level of entrepreneurs' interest in perspective projects. Researches clearly stated that the low quality of the institutional environment had to be compensated and complemented by informal institutions – rules, that existed in society and economy. Aidis et al. (2008) mentioned as an example post-Soviet system of reciprocity "blat", Lee and Anderson (2007) cited Chinese "guanxi" as an important element inherent country's business relationships. These systems were either an addition or a surrogate of formal institutions in a situation

when in the economy the institute of law did not contribute to a private economic initiative. As a result, entrepreneurship was forced to stay in the gray zone and to find its own regulatory mechanism.

Central and Eastern Europe's economic transformation period had affected the changes in both formal and informal institutions, for example, perception of corruption, entrepreneurs' nepotism, or lack of social responsibility. However, changes in the field of informal institutions were occurring relatively slower. On the one hand, entrepreneurs should adapt to the changing institutional environment, and, on the other hand, it could be argued that their operation contributed to a continuous evolutionary game. Changes in institutions' quality could be viewed from two points of view, one from the prospects of North (1990), when institutions had exogenous character, another from the prospects of Aoki (2001), when institutions had endogenous character.

### **3.2. The competitiveness of the national economy**

If assumed that the main goal of the national economy was to raise the living standard of the population, it would be worth to remember that such a goal could be achieved through the effective use of national capital and labor resources on the background of the economic and institutional conditions created by the common activity of the government and business entities. Such a goal depended on the results of enterprises. That was the reason for Porter (1990) to define the national economy's competitiveness as the reflection of entrepreneurship's efficiency. The approach based on manufacturing productivity level enabled the acceptance possibility of many design concepts and projects that promoted competitiveness growth. Establishing a link among microeconomic, mesoeconomic and macroeconomic competitiveness demonstrated the subordination of mesoeconomic level and macroeconomic level to the microeconomic one. Therefore, the only place where their productivity and efficiency were created was an enterprise, and in branch, sector and whole national economy were more or less favorable conditions and existing driving forces aiming to promote or the block effective activity of the enterprise. So, Porter (2001) assumed, that the competitiveness at the macro level was something more than the sum of business entities' competitiveness.

Representatives of the World Economic Forum (WEF) also believed that competitiveness would reflect the correspondence of national economic institutions and economic structure with the opportunities to provide growth that was noticeable on the background of the overall world economic structure. Therefore, due to WEF Annual Report (2011), the national economy would be competitive on an international level if its institutions and its policies supported the rapid and long-term growth of the economy.

A similar definition was used by the European Commission, due to European Competitiveness Report (2010) adhering to the statement that competitiveness was the ability of the economy to provide citizens with a high and growing standard of living and broad access to employment based on a sustainable basis. This concerned the institutional and political conditions through which productivity and production could grow by sustained and balanced rates.

In general, approaches to determining countries competitiveness' show that it was based on results or factors orientation. According to Radło (2008) countries' competitiveness concerned economies' results, including the level of GDP, the share in world trade, both quantitatively and qualitatively. Such definitions focused on assessing the level of competitiveness achieved by the country. The change of position would occur when the conditions of the country's participation in world trade were changing. The disadvantage of this definition concerned that it concentrated primarily on business results, regardless of their causes. In contrast to the results orientation, factors focused on assessing the sources of economy's competitiveness that affect the future competitive position, including the size and structure of productive resources or the effectiveness of their use. Such definitions assessed the ability of the country's economy to withstand international competition, in other words, its ability to compete.

The mixed results-factors orientation definitions combined both approaches, taking into account existing economic potential and achieved a competitive position as well as the factors that influence economic growth potential and are related to the ability to compete. Definitions of this type were most complete since according to Radło (2008) they were taking into account the interaction between the level of economic development achieved and the number of factors that give rise to competitiveness.

Due to the Global Competitiveness Report (2002) it was assumed that competitive countries had the economic base to achieve rapid and long growth taking into account the level of national income at the time of launch. A very positive aspect of such an approach was the fact that it emphasized the role of achieved levels of growth and economic development as determinants of competitiveness sources. Due to the above mentioned, this approach combined elements of factors and results orientation. However, it did not develop the problem of factor competitiveness, perceiving the national economy as a whole.

In the World Bank Annual Report (2003) competitiveness was identified with the competitive performance of the entrepreneurial activity. It referred to the amount of added value created per unit of borrowed funds received by enterprises. Within this approach, competitiveness was a constant process of innovation, enhancement and improvement of the factors and actions on which the amount of added value created depended. Gaining a competitive advantage was not equivalent to obtaining a comparative advantage. This was due to the fact that many countries, besides the comparative advantage due to, for example, low labor costs or large reserves of minerals, were at a low level of development, and there was no growth prospect of their economies. Such definition had a clear factors orientation, and its basic advantage was the emphasis on the role of innovation in creating and retaining the ability to compete.

### 3.3. The assessment of level of competitiveness of the national economy

In order to determine countries's GCI WEF first groups them according to economic development level. According to this approach, there are three groups of countries: countries at the initial stage of development; countries at the mature stage of development; countries at the stage of innovation development. In the Table 1, countries are put not in three, but in five groups, due to the authors approach – additional groups of transition from 1<sup>st</sup> to 2<sup>nd</sup> stage and from 3<sup>rd</sup> to 4<sup>th</sup> were presented.

**Table 1**  
Classification of countries by stage of development

Stage of factor orientation (35 countries)	Transition from 1st to 2nd stages (15 countries)	1st stage of productivity orientation (31 countries)	Transition from 2nd to 3rd stages (20 countries)	3rd stage of innovation orientation (36 countries)
India	Azerbaijan	Bulgaria	Latvia	Estonia
Moldova	Kazakhstan	Georgia	Poland	Germany
Kirghizia	Kuwait	China	Romania	USA
Pakistan	Ukraine	Russia	Lithuania	Czech Republic
Tajikistan	Philippines	Serbia	Hungary	Slovenia

Source: Developed by authors based on WEF Annual Report 2017-2018 (2018)

For countries in the first group, sources of competitiveness are the possession of resources or cheap labor. Price competition dominates there and the low level of wages reflects a low level of productivity. Countries competitiveness level of the second group is determined by the labor market productivity, high level of education and professional training of employees. In this case, complex manufacturing processes develop, desire to improve product quality dominates in the competition area, real added value increases. The innovation development stage is characterized by the ability to compete in global markets by the absolute novelty of the

created goods, their uniqueness for the highest quality and increasing complexity, which is the basis of high living standards.

It should be noted that compared to WEF Global Competitiveness Reports 2014-2015 (2015) reports Ukraine has lost its position in productivity orientated countries and has entered the transition group from 1st to 2nd stages due to the need of refocusing its resources on military objectives because of Russian military aggression. Poland has maintained its position at the transition stage to the innovation development group.

According to the global rating of the Swiss research group IMD, which takes into account the four groups of indicators – the macro environment, the quality of state regulation and infrastructure and business efficiency – in 2013 Ukraine has risen by 7 positions in comparison with the previous year, occupying 49th position. In 2014, the position of Ukraine has remained the same. In Table 2 the IMD rating for selected countries including Poland and Ukraine in the period 2013-2018 is presented.

**Table 2**

The IMD rating for selected countries including Poland and Ukraine in the period 2013-2018

Country	2018	2017	2016	2015	2014	2013
USA	1	4	3	1	1	1
Switzerland	5	2	2	4	2	2
Hong Kong	2	1	1	2	4	3
Germany	15	13	12	10	6	9
China	13	18	25	22	23	21
Lithuania	32	33	30	28	34	31
Poland	34	38	33	33	36	33
Czech Republic	28	28	27	29	33	35
Estonia	30	30	31	31	30	36
Russia	45	46	44	45	38	42
<b>Ukraine</b>	59	60	59	60	49	49
Hungary	47	52	46	48	48	50
Romania	49	50	49	55	47	55

Source: Developed by authors based on IMD World Competitiveness Rankings 2018 Results (2018).

However, in 2015 IMD rating has confirmed that the war in east of Ukraine, economic and financial losses, inherited problems from the previous government – unsatisfactory business climate and infrastructure development levels along with inadequate competence of the regional governments – have led recession of Ukraine to 60th penultimate position. 2016 IMD rating has given a positive signal for Ukraine and the world. Ukraine has moved to one higher position, around which the country's indicators have fluctuated over recent years. Poland, on the other hand, has been staying steadily within 33rd-34th positions, except 2014 and 2017.

Leaders of IMD rating have remained unchanged – the United States, which have regained the leadership, Hong Kong and Switzerland, although their positions have changed. China has strengthened its position, as well as the Scandinavian countries, which have established themselves in the first ten.

It should be noted that IMD rating analysts have assessed not only the current position of the countries, but also in retrospect from 1997. Two groups of countries were defined: those that in the analyzed period have improved their competitiveness level and those which have deteriorated their competitiveness level. If last year Ukraine left the first of these groups according to this analysis, now it is worth stressing the first signs of stabilization and bringing it to countries that have slightly, but improved their position, as well as Poland. In Table 3 the GCI rating for selected countries including Poland and Ukraine in the period 2010-2018 is presented.

**Table 3**

The GCI rating for selected countries including Poland and Ukraine in the period 2010-2018

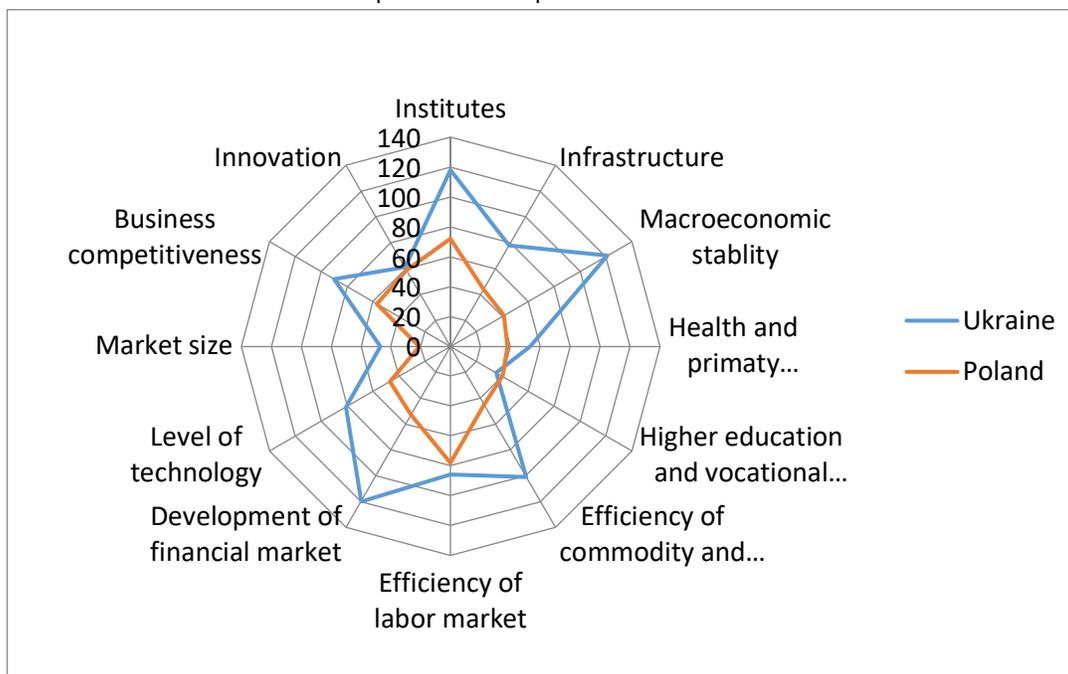
Country	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	Index value	Change 2017/2018 2016/2017
Switzerland	1	1	1	1	1	1	1	1	5.86	-
Singapore	3	2	2	2	2	2	2	3	5.71	- 1
USA	4	5	7	5	3	3	3	2	5.85	+1
Germany	5	6	6	4	5	4	5	5	5.65	-
France	16	18	21	23	23	22	21	22	5.18	- 1
China	27	26	29	29	28	28	28	27	5.00	+1
Estonia	33	33	34	32	29	30	30	29	4.85	+ 1
Poland	39	41	41	42	43	41	<b>36</b>	39	4.59	--3
Latvia	70	64	55	50	42	44	49	54	4.40	-5
Russia	63	66	67	64	53	45	43	38	4.64	+5
Kazakhstan	72	72	51	50	50	42	53	57	4.35	-4
Bulgaria	71	74	62	57	54	54	50	49	4.46	+1
Romania	67	77	78	76	59	53	62	68	4.28	+6
<b>Ukraine</b>	<b>89</b>	82	73	<b>84</b>	<b>76</b>	<b>79</b>	<b>85</b>	81	4.11	+4
Georgia	<b>93</b>	88	77	<b>72</b>	<b>69</b>	<b>66</b>	<b>59</b>	67	4.28	-8
Moldova	<b>94</b>	<b>86</b>	87	82	82	<b>85</b>	<b>100</b>	<b>89</b>	3.99	+11
Number of countries	<b>139</b>	142	<b>139</b>	148	144	140	138	<b>137</b>		

Source: Developed by authors based on WEF Annual Reports 2010/11-2017/18 (2011-2018).

Despite the fact that the results of this year's WEF studies, Ukraine has managed in the conditions of political and economic instability not only to retain its previous position but also to improve its results. Despite the continuation of hostilities as a result of Russian aggression, the need to spend significant costs to strengthen country's defense capability Ukraine has risen by 4 positions over the last year, occupying 81<sup>st</sup> position among 137 of examined countries. Poland, on the contrary, lost 3 positions from its best 36<sup>th</sup> position during the last years.

The most important reasons of Ukraine's position rise are increase of the confidence to public institutions and raise of domestic markets efficiency, increase the proportion of individuals improving their educational level, widespread use of IT communications in business and private life. In turn in Poland financial and labor market efficiency are decreased, institutions level has deteriorated. The level of innovation and labor market efficiency in both countries are the same, level of higher education and vocational training in Ukraine is even higher than in Poland. On Figure 1 twelve competitive aspects of Ukraine and Poland are highlighted.

**Figure 1**  
 Twelve competitiveness aspects of Ukraine and Poland



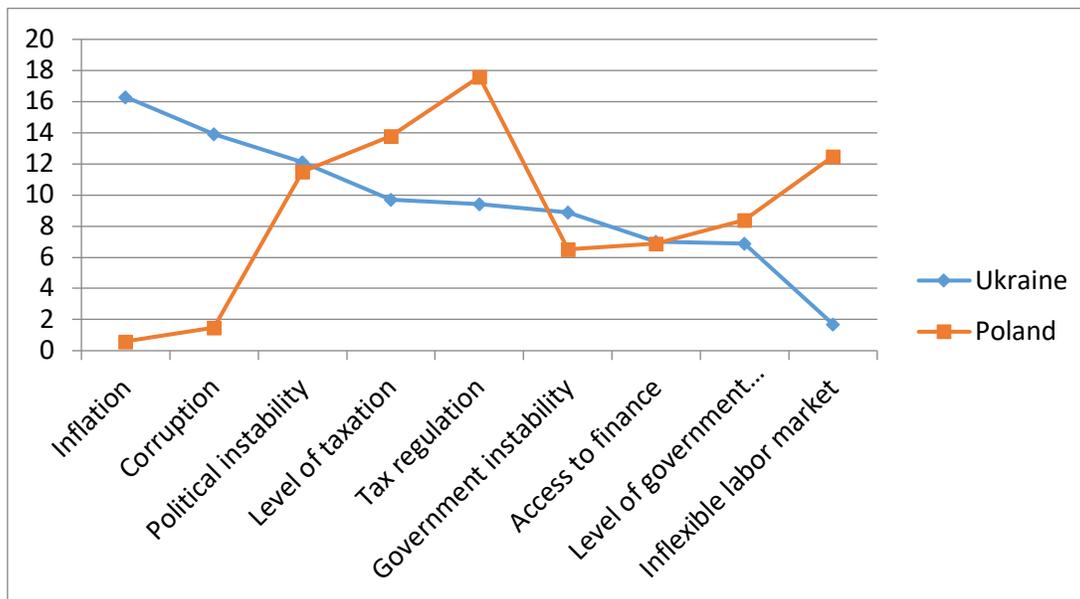
Source: Developed by authors based on WEF Annual Report 2017/18 (2018)

Among twelve competitiveness aspects of competitiveness, common problems of both countries should be mentioned: the ineffective institutional business environment and rather low labor market efficiency. Ukrainian businessmen put particularly low marks to courts independence. Among the most problematic factors in doing business in Ukraine inflation (16.3), corruption (13.9) and political instability (12.1) could be mentioned. Taxes (9.4) and taxation (9.7), as well as access to finance (7.0) should be included in the weaknesses of Ukraine.

The weakest sides of Polish economy according to WEF Report were also tax regulation (17.6), taxation (13.8), inflexible labor market (12.5), political instability (11.5), government bureaucracy level (8.4), skilled workers lack (7.0) and access to finance (6.9).

Despite the much higher position of Poland in the rating, the business of both countries has many similar problems, the biggest of which hindering entrepreneurial activity are shown on a Figure 2.

**Figure 2**  
The biggest problems of Ukraine and Poland hindering entrepreneurial activity



Source: Developed by authors based on WEF Annual Report 2017/18 (2018)

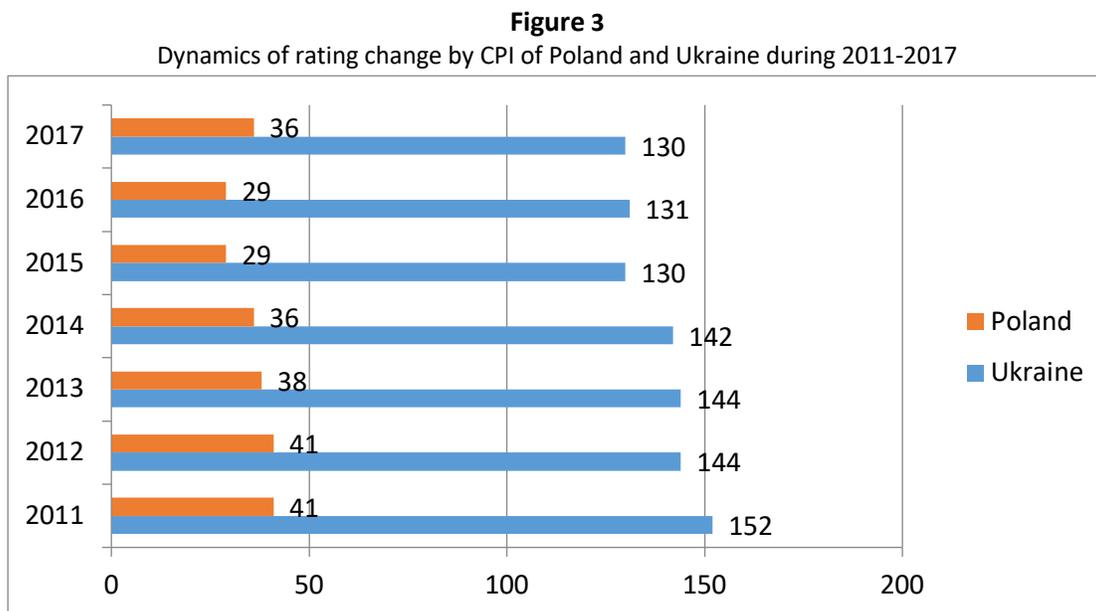
First of all, political instability, present in both countries, should be mentioned, which, however, has different causes and sources. In particular, world magazine *The Economist* has named Ukraine as one of the twenty most unstable countries in the world among the 165 countries. The index of instability has been calculated on the basis of 12 socio-political and 3 economic indicators. Ukraine eventually has taken 16<sup>th</sup> position, while Poland has taken 136<sup>th</sup> position. At the same time, Ukrainian independent centre of political studies (2018) estimated the level of political instability in Ukraine as higher than average (7-8 points in the 10-points scale). The main challenges to political stability in Ukraine remain war in the East of Ukraine, aggravation of political situation attempts, systemic corruption and related to it law enforcement bodies conflict. According to the Institute of economic research and consultations 58.3% of respondents (this number has significantly increased compared to the previous period) has described the adverse political situation as the significant obstacle of doing business.

In Poland due to *Związek Przedsiębiorców i Pracodawców* (2018) political instability is considered high for various reasons, among them – Brexit, migration crisis, risk of economy’s slow-down. Polish union of entrepreneurs and employees has named the main problems of entrepreneurship, among which instability of laws (18%), an excess of bureaucratic responsibilities (11%), complex commercial law (10%), high taxes (10%) could be mentioned. As much as 76% of the respondents has spoken for simplified and clear legislation and marked blurred legislation (82%), hostile to entrepreneurs labor legislation (66%), administrative requirements (51%) as main obstacles to entrepreneurship.

Formal institutions in the form of law consist of two elements. First deals with the quality of legislation and regulation – whether it is transparent, gradual and logical, whether it contains contradictions or legal gaps and how it impacts on business. Second deals with effective judicial and executive system. If noticeable shortcomings were marked in this element, property protection would be restricted and contracts execution would be complicated. The costs of doing business and transaction costs by default would be higher.

The most prominent indicators that characterize these institutions are index of economic freedom and corruption perceptions index (CPI). Transparency International has published CPI data, which show disturbing facts, that the majority of countries, particularly studied, despite efforts to fight corruption, has been demonstrating slow progress. Many countries have not nearly moved from the deadlock, and some have remained at the same position, recently.

Transparency International has informed, that Ukraine and Poland have changed their positions in the rating of CPI last year. Ukraine has ranked 130<sup>th</sup> position out of 180 in CPI rating in 2017 and has somewhat improved its position, unlike Poland. The positions of both countries during 2011-2017 in the CPI rating are shown on Figure 3.

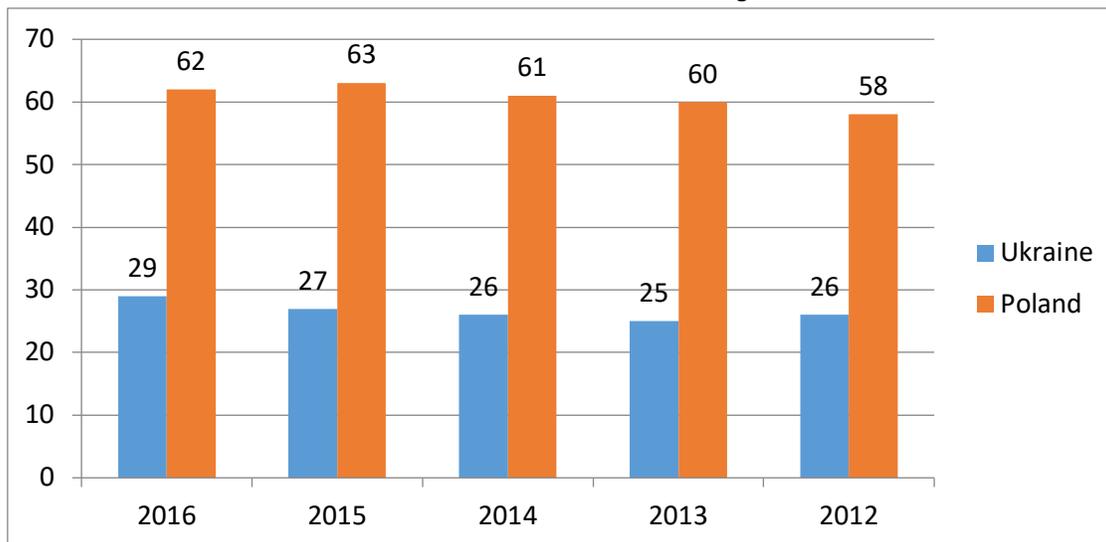


Source: Developed by authors based on Transparency International Corruption Perceptions Index 2017 (2018).

The index showed that more than two thirds of the world’s countries scored less than 50 points, while the average result was 43 points on a scale, where 0 indicates the highest level of corruption perceived by the public, and 100 is the lowest. The best performing region was Western Europe, with an average score of 66 points.

Corruption fighting requires more than just adopting well-designed laws. Corrupt individuals are very resourceful in finding ways to bypass formal constraints; therefore, according to Transparency International experts, grassroots approaches to combat corruption are generally more effective in the long run than isolated institutional and legal reforms. Civil society and mass media are extremely important for pressure on government and government’s honesty and responsibility maintenance. The analysis of CPI value of Ukraine and Poland during 2012-2016, presented on the Figure 4, shows that in countries where mass media and non-governmental organizations are vulnerable, the level of corruption is usually high.

**Figure 4**  
The value of CPI of Ukraine and Poland during 2012-2016

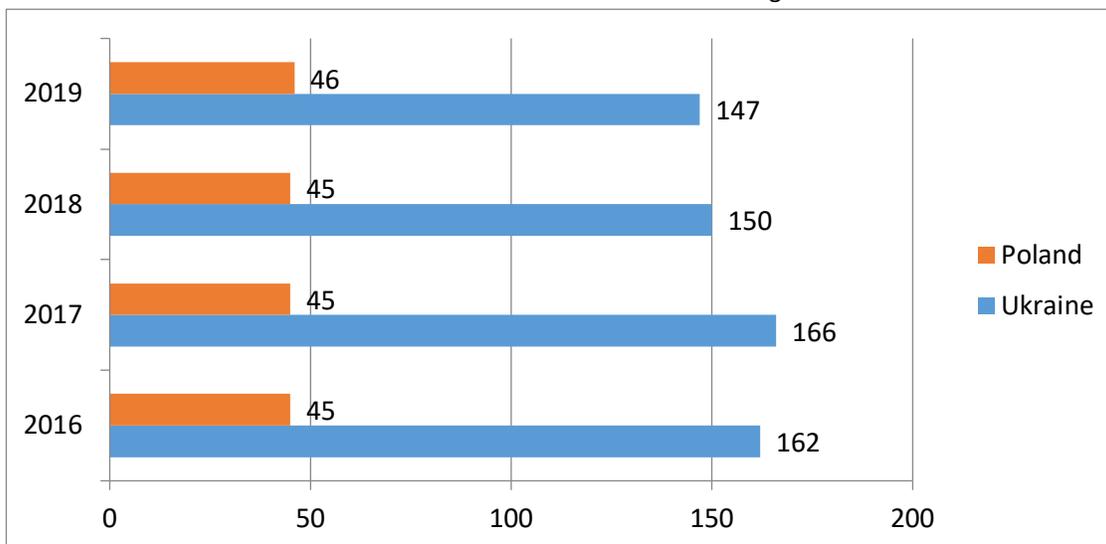


Source: Developed by authors based on Transparency International Corruption Perceptions Index 2017 (2018).

As a result of the study, Ukraine has received 30 points out of 100 possible. This is 1 point higher than in 2016 (29 points, 131<sup>st</sup> position out of 176 countries). But in the dynamics the results of last year are lower than in 2016. In World CPI rating Ukraine has overcome Russia for the first time since 2010 (29 points), which hasn't improved its position over the last year. The results of other neighbors are considerably better: Poland – 60 points, Slovakia – 59 points, Romania – 48 points, Hungary – 45 points. Compared to the previous year, Ukraine has risen upto 2 positions.

An assessment of institutional environment quality has a long tradition. The most well-known indicators include the Freedom Index, which is calculated by the Heritage Foundation. The values of Freedom Index of Ukraine and Poland during 2016-2019 are shown on the Figure 5.

**Figure 5**  
Freedom Index Values of Ukraine and Poland during 2016-2019

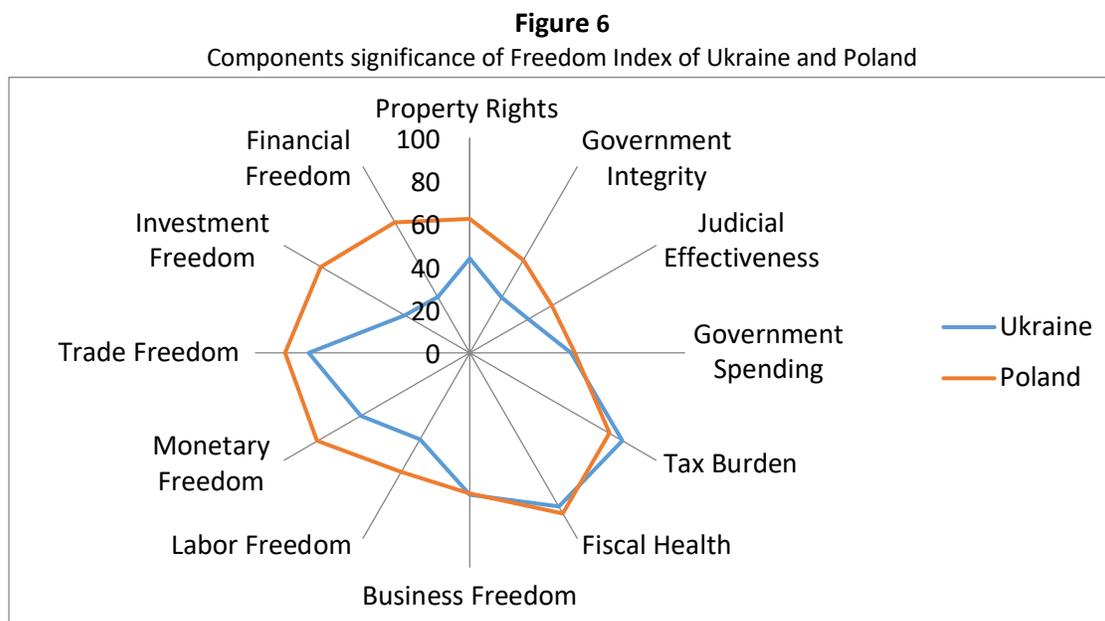


Source: Developed by authors based on Heritage Foundation 2019 Index of Economic Freedom (2019)

The total value of Ukraine’s freedom index in 2019 is 52.3 and it has grown by 0.4 points in comparison with the previous year. The total value of Poland’s freedom index is 67.8 and it has fallen by 0.7 points. Poland’s overall value is lower than average regional, but is higher than average world. Poland has 23<sup>rd</sup> position among 44 European countries, Ukraine has 44<sup>th</sup> position. But in general Ukraine has positive dynamics, except for 2017, and improves its position significantly. Poland, on the other hand, shows slight but negative tendencies. Positive economic reputation of Poland has been obtained through structural reforms: liberalization of trade, low taxes and regulation, favorable business environment. The enthusiasm about reforms has decreased recently on the background of political and economic uncertainty, which has contributed to the volatility of the currency and weakening of investment rate. Problems have included deficiencies in road and rail infrastructure, rigid labor code, weaknesses in commercial court system, state bureaucracy and burdensome fiscal system for entrepreneurs. Reforms are also needed to maintain the independence of the judiciary and to reduce opportunities for corruption.

Progress in Ukraine is hampered by the implementation of many necessary but ambiguous structural reforms, such as reducing subsidies and raising energy tariffs, fiscal consolidation and fight against corruption. Economy’s growth, in which oligarchy were dominant oligarch, has been proceeding partly due to remittances of migrant workers. Ukraine needs to develop its capital markets, to privatize state-owned enterprises and to improve its legal base as well as the rule of law.

As can be seen from the Figure 6, according to the indicators of business freedom, fiscal health and public spending, both countries are at the same level, while the general tax burden in Ukraine is even slightly lower. The biggest gap is in financial and investment freedom.



Source: Developed by authors based on Heritage Foundation 2019 Index of Economic Freedom (2019)

Studies have shown that Ukrainian legislation protects property rights. Hypothecs and mortgages have been fixed, and the government has reduced the fee for building permission in 2018. The judiciary is a subject to political pressure, it is characterized by corruption and bribes, so, public trust judiciary’s efficiency is weakened. Criminal sanctions for corruption are not being implemented effectively, and corruption remains. The right to purchase and dispose of property in Poland has been protected by law, the judiciary is independent, but there are frequent complaints about slow and sometimes politicized judicial system, which have reduced confidence

in the government's ability to uphold property rights. Prosecutions of corruption are most often encountered in public procurement, where as argued regulations or permits have been issued in favor of specific companies. Several known corruption investigations that have appeared in 2016 pointed to problems that remain in public institutions.

The maximum tax rate on personal incomes in Ukraine is 20% and the highest rate of income tax is 18%. Other taxes include value added tax and property taxes. The total tax burden is 33.1% of total domestic income. Over the past three years government spendings have amounted to 42.1 % of the country's output (GDP), and budget deficits amounted to an average of 1.9% of GDP. The state debt is equal to 75.6% of GDP. The highest tax rate in Poland is 32%, and the income tax rate is 19%. Other taxes include value added tax and property taxes. The total tax burden is 33.6% of the total domestic income. Over the past three years, government expenditures amounted to 41.3% of the country's production (GDP), and budget deficits amounted to an average of 2.3% of GDP. Public debt is equivalent to 51.4% of GDP.

The process of launching business in Ukraine has been optimized, but licensing requirements are still time consuming. In general, political instability continues to complicate regulatory uncertainty in commercial transactions. The Labor Code is obsolete and inflexible. Under the influence of international financial institutions, the government has expanded control over natural gas prices in 2018. Regulatory reform in Poland is in stagnation state and levels of business freedom lag behind many other European countries. But modernization of regulatory environment in Poland has contributed to transition to market economy. Labor costs are relatively high, and trade unions have a significant impact on the termination of contracts and other labor issues. Poland has been the largest recipient of EU subsidies, but the European Commission has threatened that it would freeze its subsidies if Poland did not cooperate with the „core values of the EU”.

The total value of exports and imports of Ukraine and Poland is almost the same –102.2% and 102.8% of GDP respectively, as well as the average applied tariff rate is 2.5% and 2.0%. As of June 30, 2018, according to the WTO, there have been 143 non-tariff measures in Ukraine. The current conflict with Russia undermines trade and investment flows, while state-owned enterprises distort the economy. About 64% of adult Ukrainians have access to an account in an official banking institution. Poland implements a series of non-tariff barriers to trade across the EU, including technical and product-specific regulations, subsidies and quotas. New law on investment promotion has been adopted in 2018. The financial sector continues to expand. FTSE Russell has raised Polish stock market to the status of „developed market”.

The analysis of business activity regulation state by the version of the World Bank in Doing Business 2015. Going Beyond Efficiency (2016) shows a positive trend for both Ukraine and Poland. So, in 2015, Ukraine for the first time has entered the first hundred countries in the ease of doing business rating, has improved its position in the following years. Now it has occupied the 80<sup>th</sup> position, which is 64 positions better than in 2008. Poland is on 24<sup>th</sup> position.

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## 4. Conclusions

Based on the research and results of the systematic analysis of socioeconomic processes carried out by leading experts and research universities, a list of six main factors could be identified, the elimination of which would significantly improve the performance of Ukrainian economy. Due to International Council for Science (2015) they include:

- the war in eastern Ukraine and the occupation of the Crimea, as a result of which Ukraine loses up to 25% of GDP;
- shadow economy, which according to various estimates is about half of GDP;

- the scale of corruption caused by the shadow economy reaches 14% of GDP;
- imperfect pension system, which accounts for another 13% of GDP;
- servicing of public debt, which annually costs about 10% of GDP;
- the energy intensity of GDP, which is 3-5 times higher than the indexes of developed countries.

Unlike Poland, which has achieved high rates of economic growth by accessing the EU's large scale market and has been rapidly integrated with international manufacturing networks, Ukraine has been using the strength of the national economy, such as multi-sectoral infrastructure availability, educated human capital, favorable geographic location in the European area, one of the largest markets in Europe, in order to take strategic decisions in three main directions of the crisis program:

- effective response and preventive measures to integrate the risks of public administration inefficiency;
- adaptation to demand changes in the global economy with simultaneous stimulation of domestic market development;
- creation and development of high value-added manufactures.

Crisis situation is a good moment for a profound change in Ukrainian economy orientation towards qualitative changes and an emphasis on innovation factors to increase its competitiveness, subject to macroeconomic and social changes. Poland's economy can serve as an example to follow.

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