очень высок, а безопасность зависит от уровня доверия к правительству (бета-коэффициент 0,4) и окружающим людям (0,36).

Для разных групп государств определяются различные переменные, влияющие на субъективное ощущение личной безопасности. Так, в целом, распространенность убийств в обществе снижает ощущение безопасности, однако в странах со сверхвысокой преступностью и низким уровнем жизни, по-видимому, убийства не оказывают особого влияния на общественное мнение относительно безопасности.

Таким образом, эмпирическим данным, как правило, отвечает несколько аналитических моделей. Прикладные программы позволяют выполнить необходимую предварительную обработку данных, сравнить точность различных моделей и сформировать обобщенный результат. По сравнению с простыми решениями, сложные многопараметрические уравнения, а также объединение классификаторов выигрывают в точности, но зачастую обладают меньшей очевидностью и ясностью. При одинаковой предсказательной силе следует выбирать более лаконичные модели, отражающие правильную (соответствующую теории) направленность корреляционных связей регрессоров с откликом.

Благодаря использованию многомерных статистических методов, альтернативных линейной регрессии, удалось объяснить на обучающей и проверочной выборках около 50 % вариации зависимой переменной. Увеличение величины показателя соответствия модели данным достигается и путем разделения обучающей выборки на однородные множества. Частично-глобальные модели представляют, по нашему мнению, преимущества для социологии исходя из увеличения точности результатов, прозрачности получаемых правил и возможностей управления процессом построения типологии.

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UKRAINE AFTER THE 2014 WAR: PERIPHERY OR SEMI PERIPHERY?

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Метою роботи є вивчення впливу наслідків війни 2014 року на прийдешні соціально-політичні та економічні перспективи України. Спорадично описується Кіпр, який через 30 років після «великого вторгнення» став членом ЄС. Для України прогрес інтеграції з «європейським проектом» буде залежати від дотримання економічної програми забезпечення необхідних інвестицій, розвитку торговельних зв'язків та підприємництва, а також бізнес-клімату, співпадаючого з вимогами сучасної глобальної економіки. Це означає,

що перспектива участі України в Європейському Союзі убезпечить її від сповзання в периферію як в політичному, так і економічному розумінні.

Ключові слова: українська економіка, фактори виробництва, світ-система, наслідки конфлікту, перехід.

Целью работы является изучение влияния последствий войны 2014 году на будущие социально-политические и экономические перспективы Украины. Косвенно описывается Кипр, который через 30 лет после «большого вторжения» стал членом ЕС. Для Украины перспектива интеграции в «европейский проект» будет зависеть от соблюдения экономической программы обеспечения необходимых инвестиций, развития торговых связей и предпринимательства, а также бизнес-климата, совпадающего с требованиями современной глобальной экономики. Это означает, что перспектива участия Украины в Европейском Союзе обезопасит ее от сползания в периферию как в политическом, так и в экономическом смысле.

Ключевые слова: украинская экономика, факторы производства, мир-система, последствия конфликта, перестройка.

The aim of the paper is to examine the effects of the war of 2014 on Ukraine`s future socio-political economic prospects by means of a parsimonial model associated with economic growth in a country. The paper briefly considers Cyprus which 30 years after a major invasion, became a member of the EU. For Ukraine to progress to integration with the “European Project”, this would depend on pursuing an economic programme to secure necessary investment, develop trading links and foster entrepreneurship and a business climate commensurate with the requirements of today`s global economy. It notes that were Ukraine to become a member of the European Union, it would be far from peripheral in both political and economic terms.

Key Words: Ukrainian economy, Factor endowments, world-system, conflict consequences, Transition.

Introduction

As set out in Wallerstein`s multivolume history [22], the epoch of the “world economy” (or “world- system”) arose at around the beginning of the sixteenth century when market relations became paramount and therefore capitalism became the dominant economic system. Through developments in transportation, military technology and communications, and combined with both political power and military resources, it spread outwards from its “core”, ie the leading societies of western Europe, across the globe. Peripheral, poor societies were coerced into the dominant world system run by the “core”.

The “external arena” constituted those countries not pulled within “the world capitalist economy”. The collapse between 1989-91 of command economies, which were viewed as semi peripheral societies, saw the elimination of those countries pursuing a non capitalist route of development, as they were incorporated into a single, but unequal, economic system of interdependency with the “core”.

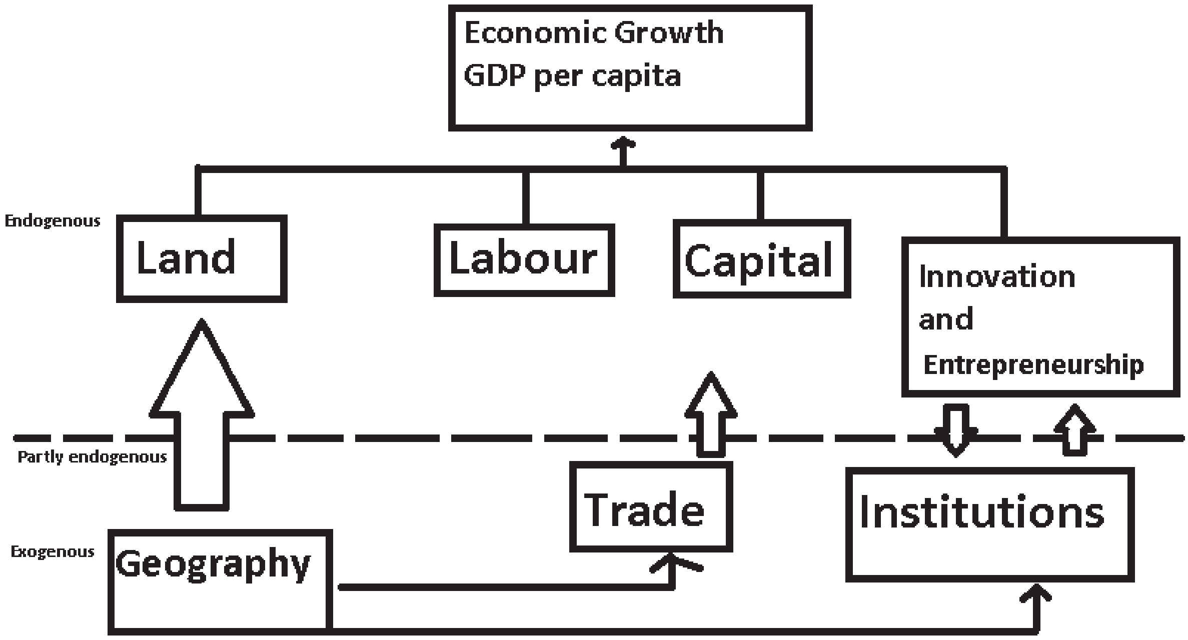
In the aftermath of the events of 1989-91, those countries in central Europe, such as Poland, clearly sought to re orientate their countries` economies away from the Comecon trade arrangements dominated by the USSR and towards Western Europe and the USA for the purposes of conducting trade and attracting much needed investment and skills to modernise and transform their economic bases. They thus actively sought political and economic integration with the “European Project” then ongoing as the continent pursued its vision of an “ever closer union”. To this end, laws and norms established in Brussels, - *acquis communautaires*, were adopted and implemented; businesses were privatised and often sold to western investors; foreign investment encouraged; the financial sector was re oriented along market principles; technology and managerial expertise imported; and supply chains constructed with countries` enterprises. As an example of the latter, from a low base, Poland imports around 27% of its goods from Germany and its exports to Germany account for 26% of the total [1].

Further east, countries such as Ukraine adopted a more cautious approach, mindful perhaps of their deep historical, cultural and economic roots with Russia. The move, enjoying a measure of popular support and approval, even in the business and economic elites, towards integration with Europe, by means of a free trade agreement - the Association Agreement and DCFTA (Deep and Comprehensive Free Trade Area), as a first step, was a relatively recent phenomenon. This desire however was to clash with the harsh reality of Ukraine`s economic and political position – burdened by record falls in GDP following 1991 and again in 2009 as a result of the Financial Crisis, as well as Russia`s own plans for Ukraine in its alternative counterweight to the EU, the Eurasian Economic Union. The combined effects of this “push” towards the EU and the centripetal effects of Russia`s intense efforts to retain influence in Ukraine, as accentuated by top level political miscalculations, would lead to the subsequent annexation of Crimea and a full blown “new war” (to borrow from Mary Kaldor [9]) in the east of Ukraine.

The aim of this paper is to examine the effects of the war on Ukraine`s future socio-political economic prospects.

Model of Analysis

The paper employs a parsimonial model associated with economic growth in a country, “stripped down to its essentials” in the form of three factors of production (resource endowments), as set out in the diagram below [17, p5], which determine the total output of a country: Land, Labour and Capital, with an additional factor of Innovation and Entrepreneurship, based on Schumpeter [19], to address “creative destruction” in the economy ie the elimination of economically inefficient businesses by new, competitive ones and the dissimulation of new ideas throughout an economy promoted by entrepreneurs. These resource endowments are considered in their turn with particular reference to present day Ukraine.



There are certain other factors which might be viewed as deeper determinants of growth, such as geography, trade integration and institutions, which can also be incorporated in such a model.

Geography relates to the advantages and disadvantages of a country`s physical location – its proximity to the sea for transportation, climate (for agricultural activities) and so on.

Trade integration relates to a country`s market size eg Poland`s sizeable population, when compared to Hungary, Czech Republic and Slovakia, made it an attractive proposition for western companies; and the benefits of participation in the international trade in goods, services, capital and also of labour ie migrants.

Institutions refer to the quality of both formal and informal sociopolitical arrangements, as well as enforcement mechanisms – the “rules of the game” (to borrow from Douglass North [13, p3), such as the legal system, the bureaucracy, the political system, that can either promote or inhibit economic performance.

To an important degree, these deep determinants are closely interrelated and influence each other. Geography is important in determining income (or say, GDP per capita) as natural-resource endowments are shaped in large part by a country`s geography. Furthermore, the quality of natural resources depends on geography. Ukraine has been blessed with considerable coal reserves for its energy generation; more recently it has identified considerable shale gas reserves which might be valuable sources of government revenues and reduce its dependence on external suppliers – one could think, as an example, of the USA and the exploitation of its shale reserves to minimize reliance on the Middle East.

Geography also influences growth via trade integration and institutions. Geography can be an important determinant in how a country can be integrated with the world market, irrespective of the trade policies it pursues. For example, the level of tariff costs may not be as important as the cost, say, of transporting goods to a landlocked country or a country without a proper transport infrastructure. Geography can also drive institutions. Up to 1991, Ukraine was a member of the

USSR and therefore, to a large degree, inherited its institutions from this era. Georgi Derluguian [3] has highlighted how such institutions “captured” economic and political power in the transition process.

Land

As is well known, the conflict has taken place in the east of Ukraine in a number of provinces close to the Russian border. If we take the whole of the provinces of Luhansk and Donbas, the total area of land at risk of loss is around 8.8% and covers 15% of the total population. The Luhansk oblast contains coal, machine building and power generation closely linked to its neighbour, Donetsk, which accounts for half of the country`s coal, finished steel, coke, cast iron and steel production.

Based on the first quarter of 2014 [7, p6], their share in Ukraine`s volume of industrial production amounted to 23% and 14.5% of the country`s retail trade. Furthermore, the two regions accounted for respectively 23% of total exports and 6.75% of total goods imports. The IMF and World Bank have estimated that these two areas account for 16% of GDP based on 2012 data [7, 23].

Furthermore, as will be examined in more detail later, there are also shale deposits located in the eastern region, particularly in the Yuzivka area of Donetskto the Kharkiv region. This natural resource endowment is now under separatist control.

Thus, the land now controlled by separatist/Russian forces would encompass not just a significant element of the existing economic base but also Ukraine`s prospective natural resources for its future benefit, including coal but also possible shale deposits which would serve to mitigate the reliance on external suppliers for its energy requirements.

Labour

Ukraine is a country of great internal diversity both geographically, ethnically and socially. Although ethnic Ukrainians made up 77.5% of the total population according to the latest census from 2001, substantial parts of the population belong to ethnic minorities, particularly Russians (17.2%) [1].

According to the UN`s World Population Prospects (2012 Revision) [20], the medium variant for the country envisages a decline in the population from around 46 million in 2010 to just 33.7 million by 2050 reflecting the country`s poor health record reflected in high death rates and low birth rates (as also noted in the WDI indicators, noted below).

The Human Development Index is a broad measure of welfare constructed by the UN based on indicators of health, education and GDP. HDI reports issued by UNDP for the period 1990 to 2013 reveal the following [21]:

Country	HDI rank (2013)	1990 index score	2013 index score	Change in index score
Poland	35	0.714	0.834	+ 0.120
Belarus	53	0.725 (2005)	0.786	+ 0.051
Russia	57	0.729	0.778	+ 0.049
Ukraine	**83**	**0.705**	**0.734**	**+ 0.029**

Ukraine lies between Peru and Belize in the 2013 HDI rankings and reveals very little increase in its index score over the period of almost a quarter century. Of interest is Belarus` ranking and the change in index score registered between just 2005 and 2013. Based on the data, the HDI for Ukraine has been adversely affected by the record in GDP, which decreased alone by 40% in the period 1991-99 and by its poor health measures. Ukraine`s HDI has registered a modest uplift largely due to education rankings.

It should go without saying that education and training are essential to raising the overall level of human capital, which should be viewed as any country`s essential “natural resource” whether in the performance of labour (including education itself) as well as innovation and entrepreneurship (which is also a human activity). However, there are a number of facets which lend a different complexion to that in the context of Ukraine.

According to the IMF, at the end of 1Q 2014 [7, p6], total unemployment was 8.8%, with Donetsk and Luhansk regions registering unemployment levels of respectively 9.1% and 8.8%. The declines in industrial production, agriculture, construction and retail (overall a projected fall in GDP in 2014 of 15% in the east with mid to high single digits in the rest of country) will surely lead to further increases in unemployment this year and possibly next year.

Unemployment figures do not tell the whole story as there are generally strict rules for official registration. Another consideration is the shadow economy. According to Professor Schneider [18], Ukraine`s shadow economy is estimated to be around 54% of the country`s GDP[1] as compared to around 26% for Poland and 46.6% for the Russian Federation. It has the second largest shadow economy out of nineteen eastern European and central Asian countries surveyed, with Georgia in top position with its shadow economy estimated at around 68% of GDP. The shadow economy can be defined as "those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation". It is closely associated with an increased burden of taxation and social security contributions, combined with overly restrictive labour market regulations.

Furthermore, unemployment only measures that part of the labour force present in a country but officially unemployed. According to data, the number of migrants working overseas is estimated to be in excess of 2-3 million [11]. Recent research conducted under the auspices of the EBRD [4] in August to October 2011 found that around one-half were employed in occupations overseas for which they were over-qualified. Thus, despite the Ukraine spending around 6.2% of GDP per annum on education between 2006-2012, there is the absence of a conventional link between education and occupational skills in the Ukraine. On the positive side, migrants repatriate around US$ 4 – 6 billion per annum.

As a result of the conflict, it is estimated that around 730,000 Ukrainians have fled to Russia and a further 117,000 have been displaced due to the conflict.

Capital

According to the State Statistics Service, Foreign direct investments (FDI) in Ukraine in 2013 amounted to $2.86 billion against $4.13 billion in 2012[2]. The events of 2014 and general uncertainty over the course of the economy are likely to have sharply curtailed such investment this year as well as impacting upon 2015 figures. The total stock of FDI is estimated to be around US $ 61.5 billion [1].

Based on information from InvestUkraine.com [8], the top sources of FDI were as follows:

Cyprus – 31.7%
Germany – 11.6%
The Netherlands – 9.5%
Russia – 7%
Austria – 6%

Cyprus is very likely the principal foreign investor by virtue of the advantageous Double Taxation Treaty between Ukraine and Cyprus with the latter viewed as an ideal location for a holding company structure. It is very likely that investment is most likely Ukrainian and indeed Russian in origins, as well as other countries who have taken advantage of Cyprus` legal system and financial services industry. The Netherland is most likely a direct investor as well as investor due to its own beneficial tax status. It remains therefore possible that the level of Russian FDI is probably much higher than the nominal 7% noted above – this merely reflects direct investment from this country without use of intermediary countries. German investment is the highest by origin from overseas reflects a reasonable level of direct EU involvement on which to build.

FDI by sector destination ie in which sector has FDI taken place, is as follows:

1. Finance – 29.6%;
2. Industrial – 31.5%: including: Metal products – 11.3%; Foods and beverages – 5.6%; Electricity, gas, water – 2.8%; Mining – 2.8%; Chemicals – 2.4%; Machine building – 2.1%.
3. Real Estate – 16.6%;
4. Retail– 11%;
5. Other – 11.3%.

The "Industrial" sector has attracted the most investment and reflects the manufacturing base of Ukraine. "Finance" is most likely connected with the investment in the country`s banking sector – and thus is linked to the Austrian FDI noted earlier.

The average regional dynamics of annual FDI inflows to Ukraine in 1996-2013 varied from 95.5% in the region of Vinnytsia to 13.4% in Ternopil oblast [2]. The pattern of FDI inflows to date suggest that the east has been the destination for most of such investment.

[1] According to the "Kyiv Post" {10], citing Economy Ministry, the "shadow economy", depending on the measure employed ranges from 30-40%.

[2] See "Kyiv Post", *Foreign direct investment in Ukraine shrinks to US$ 2.8 billion*, http://www.kyivpost.com/content/business/foreign-direct-investment-in-ukraine-in-2013-shrinks-to-28-billion-336936.html

In late February 2014, the international community began efforts to stabilize the Ukrainian economy, including a 27 March 2014 IMF assistance package of US$ 14-18 billion. This had become all but necessary for the following reasons:

- Ukraine had endured one of the worst downturns in 2009 which saw its GDP fall by 15% [5]- a level not matched elsewhere in its severity.
- Despite a modest upturn since then, Ukraine`s economy had slowed considerably in 2012 (0.2%) and had experienced no growth in 2013 [5]. In a sense, Ukraine had experienced over the last twenty years, rather than a cycle of “boom and bust”, almost invariably one of busts punctuated by sudden bursts of temporary, but modest, economic upturns.
- Its business climate (which we will examine further below) was not conducive to attracting foreign investment to modernize its economy and business base, which also would help “balance the books” of increasing trade deficits where imports considerably exceeded exports.
- Borrowing from overseas to “bridge this gap” in the deficit had become far too expensive to attract or was just not becoming available given the mounting risks presented by an underperforming economy.
- The situation had “spillover effects” of a negative nature – without foreign investment and new skills and technologies, an otherwise well educated workforce was either to migrate overseas or retreat into the “shadow economy”, which fed into government revenues not benefitting from this economic activity. Without government revenues, public expenditures on health and other welfare “safety net” arrangements (plus defence spending?) would not be fulfilled.
- Companies faced issues in borrowing: if from Ukrainian banks then the cost was expensive if it could be obtained; companies with economic prospects faced scrutiny from corporate raiders inhibiting plans for expansion. Companies with export prospects might be able to borrow but if in capital intensive businesses, such as steel, could be subject to the vagaries of high breakeven costs and world market prices, as well as the all important price for energy from overseas.

Given the need for external capital, preferably of a long term nature, Ukrainian companies may well need to consider other sources – particularly in the light of the fragile nature of the Ukrainian banking sector. A number of Ukrainian companies have listed on the Warsaw Stock exchange to attract foreign capital[3]. The need to pursue this opportunity requires the fulfillment of good corporate governance and transparency, involving regular reporting, and compliance with a reasonably rigorous regulatory regime.

Trade integration

First of all, we can assess Ukraine`s trade openness which is based on imports plus exports as a % of GDP, as compared with its neighbours from 1991 to 2013 [26]:

Country	1991	1995	2000	2005	2013
Belarus	70.3	103.7	141.6	124.1	125.0
Poland	45.0	44.2	60.6	83.0	93.0
Russia	26.3	55.2	68.1	54.9	51.0
Ukraine	**50.1**	**97.2**	**119.9**	**96.1**	**102.0**
Memorandum items					
UK	47.4	57.2	58.2	61.6	64.0
USA	20.5	23.4	26.3	27.2	30.0
China	29.0	39.0	44.2	71.0	50.0
Germany	51.9	47.4	66.4	84.7	95.0

Ukraine has increased its trade openness over the period in line with its near neighbours with the % nearly doubling – even Russia`s trade openness has increased from a low base of just

[3] Ten companies according to WIG-Ukraine index.

26.3% in 1991 to 51% in 2013. The Memorandum items serve for comparison purposes – note how Germany`s own increase in time mirrors that of Poland`s reflecting their own deepening trade relations. The USA`s own measure has remained relatively small given the size of its domestic economy.

Turning to Ukraine`s exports in 2013 [28], by main commodity group, manufactures account for 50%; agricultural products for 28.1%; and fuel and mining products, 13.5%. By main destination, exports are to:

1. EU - 26.5%.
2. Russia – 23.8%
3. Turkey – 6.0%
4. China - 4.3%
5. Egypt – 4.3%

According to the IEA, steel products account for 50% of exports [6, p13]. Given the turmoil in the eastern region, - particularly in the Donetsk, these have most likely been impacted.

Turning to Ukraine`s imports in 2013 [28], by main commodity group, manufactures account for 57.5 %; fuel and mining products, 30.1 %; and agricultural products for 11.3 %; and. By main destination source, imports are from:

1. EU – 35.1%
2. Russia – 30.2%
3. China – 10.3%
4. Belarus – 4.7%
5. USA – 3.6%

Attention is particularly drawn to the fuel imports and the source thereof – Russia. According to the IEA [6, p13] which has noted that Ukraine`s total energy input dependency is 39% ie the country has to meet 39% of its energy needs from outside suppliers:"Ukraine has potential to substantially increase production of natural gas and reduce demand, particularly in the residential sector, to fully meet domestic demand by 2030 and **thus entirely cut imports**" (emphasis added) [6, p11].

There are a number of related aspects arising from consideration of Ukraine`s economic position:

- Ukraine has incurred significant trade deficits ie the difference between exports and imports, in recent years. As a % of GDP, the current account balance ie broadly speaking, imports > exports, was 6.3% in 2011, 8.2% in 2012 and 9.2% in 2013 [23]. Such deficits are unsustainable since the "gap" needs to be met by a source of foreign exchange – FDI or loans from overseas from international financial institutions, such as the IMF. It will be recalled that the previous President Yanukovich solicited loans from Russia for the amount of US$ 15 billion, of which US$ 3 billion was disbursed. Such loans do not come without conditions – in the IMF`s case, there are *conditionalities*, requiring reform measures to be implemented and milestones met. Loans from such sources constitute a temporary measure to address an *immediate* problem but are not a substitute for rectifying structural, longstanding financial and economic issues. For FDI and other more longterm financing to take place, serious reform measures need to be implemented – the World Competitiveness Report [27] cite poor rankings which inhibit such investment taking place.
- Such investment is a prerequisite for addressing serious issues identified in Ukraine`s energy sector. The IEA estimates that the scale of the investment required to ensure modernization, security and competitiveness is EUR 170 billion in the period to 2030 [6, p7]. The investment is required to realize oil and gas potential, particularly for gas transmission and distribution infrastructure. The modernization of the country`s district heating systems and poorly insulated building stock also requires considerable public and private investment.
- Returning to the deficit, the currency devaluation, following the abandonment of the de facto peg to the US$ in February 2014 – leading to increased cost of imports and technically increased revenues from exports, and fiscal tightening arising from new taxes, led to the current account balance falling to 2.8% by July 2014 [23]. Imports fell by 21.5% for January to August due to the currency devaluation (curbing people`s demand for imports now made more expensive in Hryvnia terms), weak domestic demand (due to increased taxes and more expensive goods) and lower price of gas imports in the first quarter. Exports fell by 14.4% in the same period due to weaker external conditions ie in the EU economy, as well as trade problems with Russia. The current account balance is likely to be less than last year due to this trend but Ukraine will still require external financial assistance from the IMF and EU, as well as others to "plug" the current account deficit.
- In particular, Ukraine has, through its state gas company, Naftogaz, accumulated significant outstanding trade arrears in foreign currency which have required external assistance to ensure settlement of ahead of Gazprom agreeing to renew supplies. (Gazprom ceased supplying

Ukraine from June – surely an opportunity for the government to assess whether supply from this source could be minimized going forward, and are only likely to recommence once a payment of US$ 3 billion made with international assistance)[7, p20-21]. The resort to gas supplies from neighbours, such as Poland, reduced demand in the east arising from the conflict and general economic weakness, will have demonstrated the need for the country to consider its undue reliance on such gas imports from Russia. This also extends to the fiscal position of the country given its earnings from transit fees to carry Russian gas to the west.

- The conflict in the east will impact the major shale gas investment (of US$ 10 billion) in Yuzivska, as agreed with Shell Oil in January 2013 [16]. The drilling was originally scheduled for commencement in 2017. The recent drop in the world oil price of around 25% from its peak is also likely to impinge on future investment decision making as much as the (as of yet) unresolved conflict in addition to Ukraine`s investment climate and requirements for infrastructure to accommodate the project.

The need to scrutinize its energy policy in the light of economic and national security concerns ranging from undue reliance on Russia for its supplies to uneconomic usage (Ukraine`s Total Primary Energy Sources cost as a % of GDP is **ten times the OECD average** (in Purchasing Power Parity terms three times the OECD average))[6, p15-16] to the impact on its current account balance appears paramount. The reduction in world oil prices, availability of alternative energy supplies (gas from the EU, "greener" energy sources) and the impact of the war on manufacturing facilities in the east (heavy users of energy) are also likely to enter the determination of Ukraine`s future economic trajectory.

Innovation and Entrepreneurship

With respect to innovation, Ukraine achieves a score of 35.8 points between 2011 and 2014[4]. This score is assembled on the basis of data from the World Intellectual Property Organisation (WIPO), INSEAD business school and Cornell University. Germany, the UK,and USA score in the area of 55 to 60 points in this period.

Belarus scored an average of 34.87 for the years; Poland – 39.78; and the Russian Federation, 37.53. Thus, whilst not calamitous, Ukraine still lags alongside its neighbours and does not register a comparative advantage in this area.

According to the EBRD Transition Report for 2013 [5], *Stuck in transition?* Ukraine`s business reforms were said to be stalled. Authorities had been unable (or unwilling?) to significantly reduce the incidence of illegal corporate raiding. Needless to say, such activities are unlikely to encourage budding entrepreneurship if there are constraints and strong disincentives to running a business. The stock of unpaid VAT refunds had also increased – due to the government`s own difficult fiscal position - consolidated balance as a % of GDP was respectively – 5.4 % and – 6.7% ie deficit, in 2012 and 2013, and a projected deficit of 10.1% (including Naftogaz) in 2014 [23].

Despite a considerable improvement in business regulatory environment between 2013 and 2014, - it is now ranked 96 out of 189 economies globally compared with 112 in 2013 [24, 25], particularly in starting a company, paying taxes (through the introduction of electronic filing and payment) and transferring property, there still remains marked deficiencies in other areas. To obtain an electricity connection, it requires 10 procedures and 277 days on average; and resolving insolvency (still ranked 142 out of 189 when compared with 162 in 2013). To complete formalities on importing and exporting a standard container of goods, it still requires around a month – the cost to export a standard container overseas amounts to US$ 1,880 compared with US$ 745 in Albania. To enforce a contract in court takes, on average, over a year (378 days). Ukraine`s ranking should however be contrasted with other countries:

Poland – 32 (45 in 2013)
Belarus – 57 (63 in 2013)
Russian Federation - 62 (92 in 2013)

Thus, despite its improvement, others are also "raising the level of their game" in the ease of doing business and Ukraine ranks at the bottom of Europe *and Central Asia*.

Similarly, the Global Competitiveness Index for 2014-2015 [27] has moved Ukraine up from 84^{th} to 76^{th} out of 144 countries assessed in its rankings (Poland is ranked 43^{rd} and Russia 53^{rd}; Belarus is unranked) but it should be noted that this reflects "expectations" associated with the transition to a new government following the Euromaidan protests and that the improvement in rankings reflected "perceptions" of institutions and efficiency of markets. It did note the higher primary enrollment rate and more ICT use by both individuals and businesses. The report draws

[4] See http://www.globalinnovationindex.org/content.aspx?page=data-analysis for 2014 ranking.

attention to, in its view, two specific strengths – its well-educated population and market size in the European context.

Furthermore, the impact of the war in the east of the country is likely to have some bearing (yet unmeasured) on both schools and higher universities as well as perhaps some adverse consequences on the rest of the country, which may have consequences for the future of human capital for the country.

Institutions

The above, drawn from assorted external reviews conducted by the IMF, World Bank, EBRD and others highlights considerable failings in the overall environment which is not conducive to encouraging both innovation and entrepreneurship in Ukraine. Whilst Ukraine has encouraged some FDI, the level remains far below what should have been expected by the country of its market size – larger than its neighbor, Poland. Whilst Ukraine has registered improvements in certain rankings in ease of doing business, these are relatively modest when compared with other competitor countries in the region, let alone the world at large. For a country which will need to trade more and attract more investment for repairing its infrastructure, damaged by years of neglect and the more recent conflict, or indeed permanently lost due to separatist occupation, there is required a more fundamental shift in attitudes and a profoundly reshaped environment than has hitherto been demonstrated to date.

Let us very briefly consider the nature of corruption in the context of Ukraine and a number of the observations by external parties noted above. There is no evidence that I am aware of that would boldly assert that Ukrainians are inherently more corrupt than any other nationality. There is nothing within a people`s culture that intrinsically leads to individuals engaging in such activities. There are, to borrow from the institutional school, incentives and constraints that drive or inhibit behaviours and human actions; and corruption as conducted resembles an “institution” in its own regard. It is possible to look at corruption as inherently evil and constituting a “tax” on everyone else ie its cost is “socialized”, but another perspective might be that it is, regrettably, one of the few functioning “institutions” in Ukraine. If we take one of the abovementioned examples of Ukraine`s inability to let businesses import goods without incurring considerable time ie almost a month, and considerable expense, such a delay leads to a number of options for the Ukrainian business: (i) develop planning to be able to cope with the delay and perhaps a “cushion” for unexpected delays, thereby incurring additional costs of such inventory, and to pay the high fees; (ii) “game the system” to ensure documentation is arranged and officials bribed to ensure “fast track delivery” (or pay a specialist agency to so arrange and they settle corrupt payments). This leads to higher inventory turnover ie duration of buy-deliver-sell cycle is minimized, and the corruption costs are incurred; or (iii) desist from trading and turn to the shadow economy and avoid unnecessary complications. Therefore, the analogy to corruption being a “tax” is not the whole picture, corruption distorts by not only imposing the costs of corruption but also by inhibiting people from engaging in business if: the administrative costs are too high; potential risks are left unmitigated ie the importer doesn`t pay the relevant bribe and is left to a “lottery” of the imports either arriving on time or after the customer has switched their business elsewhere ie to a party who has paid the relevant parties to secure goods; and it reduces business flexibility ie the customer wants the goods on a set time but the firm cannot deliver within the timeframe – there are external consequences down the “supply chain” as well. It is also therefore no mystery why only sizeable companies can afford to mitigate this risk and/or have sufficient financial or political influence (or even just “muscle”) or pay the bribes necessary to pursue business activities in Ukraine. There are strong disincentives operating that significantly reduce opportunities for budding entrepreneurs and every possible rationale for “sitting it out” or moving into the shadow economy.

At the heart of the institutional failings, which should be viewed as the symptoms of Ukraine`s malady, lies longstanding failure by the country`s governing elite to effect a wider change in the society as a whole. Despite an educational system that is still widely viewed by external observers to be “punching above its weight”, other institutions have largely failed to deliver in terms of pursuing the “common weal”. Even before the conflict, large segments of the population had opted to pursue opportunities overseas – thereby devaluing the educational capital invested in them, or retreated to the shadow economy to survive away from the authorities of a “predator state”.

Despite the tragic loss of life and the shattered economy and infrastructure and business base destroyed in the east, as well as the loss of natural resource endowments, the country needs to reshape its institutions, particularly in the business environment, and attract trade and investment to avail itself of the opportunities provided by its choice for deeper integration with Europe.

Before concluding, we will examine the case of Cyprus which was itself invaded and largely occupied, but which thirty years after this event joined the European Union.

Cyprus: A Lesson from History

Cyprus is one of the largest islands in the Mediterranean sea. It was a former colony of Britain and even now still retains many links with its former colonial occupier, such as, but by no means limited to, defence installations and military bases. Cyprus historically was comprised of predominantly Greek Cypriots with a significant Turkish minority which accounted for around 18% of the population. The island was to witness a number of occasions, particularly in the 1960s, when inter communal violence broke out between Greek and Turkish Cypriots with Turkey, one of the guarantors of the island`s independence from Britain, threatening to intervene on behalf of its beleaguered Turkish minority in the wake of such incidents.

In mid 1974, a coup launched, with the support of the then Greek military dictatorship, by the Greek Cypriot terrorist group, EOKA-B, which sought *enosis* (or union) with mainland Greece, led to the unseating of the then Cypriot leader, Archbishop Makarios, who had led the island in its independence from Britain. The coup was put down and Makarios returned to office. However, on 20 July 1974, the Turks reacted to this turn of events by launching an invasion of the northern part of the island and further reinforced its invasion force in August. Cyprus was at the time, and still is, not a member of NATO and therefore, despite protests by a number of states, including Britain, Turkey pursued its military action to its conclusion. By the time, the UN had enforced a ceasefire, the Turkish army was in possession of 40% of the island which they hold to this day [14].

The result of the invasion was calamitous for the island`s population and economy. Around 4,500 to 6,000 were killed; and a further 2,000 – 3,000 are reported to be “missing”. It was estimated that anywhere from 140,000 to 200,000 out of the Greek Cypriot population of around 620,000 were displaced from the northern areas under Turkish occupation in a bout of ethnic cleansing [14].

As a result of the invasion, 70 % of the island’s wealth-producing resources were lost; the tourist industry lost 65 % of its hotels and tourist accommodation, the industrial sector lost 46 %, and mining and quarrying lost 56 % of production. Real GDP per capita fell almost 17% in 1974 and a further 16% in the following year before rebounding 20% in 1976 [15].

Of particular note was the tourism sector given the northern part of the island contained the best beaches and hotels. Indeed, where some of the best tourist resorts lay – a play area for the “rich and wealthy” of the 1960s and early 1970s, rotting hulks now stand, inhabited largely by the rodent population. Cyprus`s main airport, Nicosia International Airport lies in the Green Line, which divides the Greek Cypriot part of the island from the Turkish occupied north; still encompassed in dust and bearing the wreckage of planes and buildings destroyed during the invasion. The port of Famagusta which handled the vast proportion of freight coming into the island was also lost to the Greek Cypriots.

Cyprus was forced to rebuild its infrastructure and pursue vigorous macroeconomic policy instruments to stabilize its economy as a result. Significant deregulation and encouragement of entrepreneurship led to a rebuilding of tourism on the southern coast and its economic base. Refugees were rehoused. The economy sought to diversify away from agriculture into light industry, services and particularly financial services. Cyprus` well educated youth would be mainstays of the growing financial and legal services sector. The Cypriot pound was backed by gold reserves. Cyprus became a high-income country with high scores achieved in the Human Development Index. EU accession talks began in 1998 and in 2004, the island (Greek Cypriot part) became a full member.

Meanwhile, the northern part witnessed the influx of several hundred thousand settlers from mainland Turkey in addition to a further 50,000 Turkish troops being encamped throughout the occupied territory. The northern enclave became the Turkish Republic of Northern Cyprus but is unrecognized by any country aside from Ankara. This statelet has not attracted much investment due to its illegal basis and has existed on the back of Turkish subsidies ever since; average income and GDP are a fraction of the Greek area, notwithstanding its initial endowment post invasion. A vote by Turkish Cypriot inhabitants in 1994 to accept a plan by UN Secretary General Kofi Annan to effect a resolution of the island`s partition was rejected by the Greek Cypriots due to, inter alia, the continued Turkish military presence. Whilst Turkey has had a partnership agreement with the EU since the 1960s, the military occupation of northern Cyprus remains a major, if not insurmountable, obstacle to any further progress it deigns to pursue in respect of potential EU membership.

Conclusion

The separatist war, as backed by Russia, has had a significant detrimental effect on Ukraine in 2014 on top of two decades that witnessed a 40% drop in GDP from 1991 to 1999, a botched “Orange Revolution” in 2004, followed by further decreases in GDP and living standards following the onset of the 2008 Financial Crisis. The violence in the east has just compounded the many difficulties experienced by Ukraine as exemplified in the EBRD`s 2013 report, *Stuck in Transition?* The expected population decline noted by the World Bank merely draws attention to a further worsening trend in the country`s demographics that can only accentuate its difficulties.

On the credit side of an otherwise dismal ledger in terms of death and destruction wrought and the loss of territory and a significant element of the economic base, the war may also have contributed to the crystallization of Ukraine as a *nation* in the eyes of its citizens given the nature of the external threat posed by enemies from within and without. The Maidan protest and removal of the Yanukovich government has also brought to the fore aspirations centred around potential membership of the European Union.

The experience of Cyprus which endured the loss of 40% of its territory and a significant proportion of its economy in 1974 but ascended to EU membership in 2004 highlights lessons for Ukraine at the current low point in its own fortunes. The government now needs to construct a viable macroeconomic stabilization plan, reduce its reliance on imported energy sources (its "Achilles heel") and pursue a more vigorous deregulation regime to enhance entrepreneurship and get "Ukraine back to work" as well as planning to meet the challenges of further integration with the EU. There is no predetermined case for Ukraine, as the authors of a recent report[5] highlighted, to "continue to be one of the most misgoverned and corrupt states; and that path will only lead to further disintegration" but it is now abundantly clear that a new course must be set and followed by the nation.

The existing ties in terms of trade and investment with the EU, particularly with Germany, constitute a base upon which Ukraine can build, and like others in central Europe, seek to integrate on a far deeper basis than has been the case to date. More concrete steps in easing exports (through speedier, cheaper and simplified procedures) and other areas of concern already noted by external observers are required to promote greater foreign investment. The adoption of EU`s *acquis communautaires* should constitute the institutional "anchor" for Ukraine as it pursues integration.

If we envisage the future of Ukraine to be at some future date a member of the EU is to address the question of whether the country is periphery or semi periphery. This may well be a false description – Ukraine would be the largest member after Germany, France, UK, Italy and just after Spain with votes to match in the decision making.

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ВТОРИННИЙ РИНОК ПРАЦІ ЯК ПУНКТ ПРИЗНАЧЕННЯ ДЛЯ УКРАЇНСЬКИХ ТРУДОВИХ МІГРАНТІВ В ІСПАНІЇ

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Концентрація українських заробітчан в спеціальних трудових нішах вторинного ринку праці неодноразово привертала увагу як вітчизняних так і іноземних науковців, адже українці репрезентують освічену і кваліфіковану робочу силу. І саме пошук відповіді на це питання, тобто причини залученості українців до низькокваліфікованих і низькооплачуваних секторів економіки Іспанії, буде розглядатися в даній статті. Як показують результати дослідження, серед основних причин такої трудової ситуації українців постає сегментація ринку праці Іспанії, низька трансферність (відповідність) навичок українців, їх залежність від соціальної мережі співвітчизників, а також транснаціоналізм, що спонукає переглянути цілі міграційного проекту.

Ключові слова: українські трудові мігранти, Іспанія, вторинний ринок праці, сегментація, трансферність навичок, соціальний капітал та мережі, транснаціоналізм.

Концентрация украинских заробитчан в специальных трудовых нишах вторичного рынка труда неоднократно привлекала внимание как отечественных, так и иностранных ученых, ведь украинцы представляют образованную и квалифицированную рабочую силу. И именно поиск ответа на этот вопрос, то есть причины вовлеченности украинцев в