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OPINION | What can Ukraine do to Facilitate Innovations Development?

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By Julia Horovetska



This year, international business and political leaders, at the World Economic Forum in Davos, declared that a “fourth technological revolution” is underway. Economic analysts and state officials, including Ukrainian ones, have come to acknowledge more and more the importance of innovations development for fostering sustainable economic growth – especially so after the 2008/09 financial crisis. Thus, many governments have shifted their attention to policies supporting knowledge-based industries development. The Ukrainian Cabinet of Ministers has put among its priorities the creation of conditions for innovations development. This dedication has been expressed in the Ukrainian state’s industrial policy planning until 2020.

Innovations are usually associated not only with high profits. They also need significant long-term and high-risk investment in R&D which is why often governments become involved in promoting such development. Such a state-sponsored innovations policy is impossible for Ukraine today. Still, there are also other less costly means to foster innovations development to some extent.

First, Ukraine can stimulate knowledge diffusion, i.e. organize a system of modern knowledge inflow into the country, of knowledge generation in the country and of its easy spreading among interested actors in the business, academia, and the public sector. Knowledge diffusion can spur cooperation among business and academia and/or governmental institutions, and help ideas meet resources (finance, skills, production capacities, etc.). Aggressive knowledge diffusion should not lead through to intellectual property misusage.

Ukrainian Western neighbors have already a considerable experience of knowledge diffusion through so-called innovation agents (as they are called in Denmark) . They serve as a link between academia and business. Usually, these people are aware of research done at universities, on the one hand, and companies' needs, on the other, and try to bring them together in partnerships.

In neighboring Hungary, so-called 'Science and Technology attachés' have a somewhat different mission: "They support the international and European integration of the Hungarian S&T community by acquiring and disseminating information and by building connections between institutions," – states the National Research, Development and Innovation Office in Hungary . Thus, Hungarian S&T attachés are present in Beijing, Berlin, Brussels, London, New York, Paris, Tel Aviv and Tokyo.

Second, Ukraine should try to extend, renegotiate or conclude new trade agreements or other international obligations so as to create a way for Ukrainian innovations to enter international markets and to facilitate knowledge as well as know-how inflow into the country. In addition, the Ukrainian chambers of commerce need to cooperate more intensively with Ukrainian companies, to study their needs and search for ways to satisfy these needs in the countries of their operation.

Third, Ukraine could create a flexible system of intellectual property rights (IPR) protection. Ukrainian government works already in this direction and is changing IPR legislation, making it compatible with that of the EU. Concerning IPR, Ukrainian businesses have to especially pay high attention to newly proposed legislation initiatives. Ukrainian governmental institutions are known for simply copying norms from analogous bills of other countries without proper consideration of Ukrainian reality and needs. Trust to EU legislation is high in Ukraine due to the nation's European integration aspirations and the successful economic development of EU member countries. But taking, for instance, into account that Ukrainian IT do much of their business with the US, and that the United States' IPR legislation differs from the European one, for Ukraine it makes sense to be selective with regard to the EU's IPR norms' adoption in order to not complicate Ukrainian companies' cooperation with non-EU partners.

Fourth, Ukraine may want to strengthen those governmental institutions that deal with the implementation of economic and social policies. Institutional strengthening should not lead to the creation of additional bureaucracy, but rather to the better facilitation of business activity. One of such examples is educational institutions. There are many young Ukrainians who start their careers, not in the field of their study. Thus, companies often have to invest additionally in education/re-education of their staff to meet their businesses' needs. If the Ukrainian educational system were better able to meet the needs of the labor market, companies will have the possibility to save costs and redirect them into research activity, products and services improvement, provision of better salaries, and higher interest payment/dividend payments to investors.

Fifth, Ukraine has to work on the improvement of business climate and creation of attractive conditions for foreign direct investments. These two means are a feasible challenge for Ukrainian government due to political instability, Russia's undeclared war in Eastern Ukraine, and other factors such as the country's old infrastructure, dysfunctional governmental institutions, and legislation, lack of adequate skills among civil servants, etc. It is important for Ukraine to try to attract not only Western investors but also to keep an eye on East Asian capital. This region too has financial resources to invest, and sometimes less demanding investors. Kyiv needs to be careful though with such investors as China. The experience of some African countries has shown that despite infrastructure improvement and the creation of additional working places, cooperation with Chinese partners can lead to an unfair or even destructive exploitation of the regions receiving such investment.

Last but not least, Ukraine may try to rise demand for innovative products on its internal market. There are, of course, constraints to this strategy in view of the low purchasing power of Ukrainians. The state budget, with its continuing deficits, too constrained in using its procurement system for the creation of demand for innovations. But there are other ways to spur internal demand for innovations. Ukrainian civil servants should actively use each and every opportunity to encourage technological innovations as well as their application within Ukraine's economy, state apparatus, and not-for-profit sector.

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