

Ministry of Education and Science of Ukraine  
Kyiv National Trade and Economic University

# **UKRAINE AND THE WORLD: THE TOURISM SYSTEM**

Collective monograph

In edition A. Mazaraki, Doctor of Economics, Professor



Nemoros s.r.o.  
Prague, 2019

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## **INVESTMENT ATTRACTIVENESS OF TOURISM IN UKRAINE**

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*Post-graduate student*

In the economic literature, there are different approaches to defining the investment attractiveness, investment climate of the state as a set of political, legal, economic and social conditions that ensure the investment activity of national and foreign investors. In the most general form it is possible to present the following system of factors: political and legal environment, economic environment, resources and infrastructure, socio-cultural environment, ecology. The Ministry of Economic Development and Trade of Ukraine has prepared a project "On approval of the Tourism and Resorts Development Strategy for 2016-2020", which is in agreement with the interested central executive authorities. Implementation of the Tourism and Resort Development Strategy for 2016-2020 will facilitate the establishment of a strategic partnership between public, private and public interests to ensure sustainable tourism development in Ukraine [10].

Ukraine is a country in the center of Europe, with rich natural resources and original historical and cultural heritage has all the prerequisites for sustainable economic development at the expense of tourism revenues.

Ukraine's potential tourism opportunities are endless, but the tourism industry has long been affected by the following negative factors:

- lack of state tourism policy, tourism development strategy and programs;
- repeated transformation of the central executive authority in the sphere of tourism;
- inaction of the Coordination Council on Tourism, established under the Cabinet of Ministers of Ukraine;
- neglect of international experience of tourism development;
- territorial losses and hostilities in the territory of Ukraine;
- instability in political and economic life [9].

All these factors have negatively affected the flow of foreign tourists to Ukraine, which has halved in recent years. As a result, there has been a significant reduction in the share of tourism in the structure of Ukraine's gross domestic product, including revenues from tourism and hotel services, tourist fees, foreign exchange earnings, investments in tourism infrastructure, and jobs. Today, due to the lack of quality marketing activities, there is almost no objective and up-to-date information on Ukraine, including the diversity of its tourism resources, in the world information space, which in turn damages Ukraine's tourist image. As a result, Ukraine is rapidly losing popularity as a tourist state, since the imagination of potential tourists gives the impression of a full-scale war in the country, and the whole country is perceived solely as a hot spot [6].

Public authorities are taking steps to enhance Ukraine's authority in the international arena, to develop a positive image of Ukraine and to promote the national tourism product in the domestic and foreign markets. However, the complete absence of budget financing, the scattered state management system and the imperfection of the norms of the law hinder the activation of the tourism sector development, and the lack of state policy impedes the dynamic development of the tourism industry [5].

The intensification of the development of priority inbound and inland tourism for Ukraine is possible only through tax and financial stimulation of export of tourist services and domestic tour operators that carry out these activities, as well as uniting efforts of public authorities, representatives of tourism business and civil society institutions for popularization. Ukraine in the world and promotion of branding "Ukraine is a country attractive for tourism". Adequate level of inter-sectoral coordination and inter-regional



cooperation will allow to ensure rational use of tourism resources and to achieve optimization of expenditures from the state and local budgets for the implementation of measures in the field of tourism [1].

In the context of a certain analysis of the dynamics of socio-economic indicators of Ukraine during 2015-2018 is presented in table 1.2, as well as consider the conditions of doing business and gross domestic product of Ukraine from 2012 to 2018 (table 1).

*Table 1*

**The main indicators of socio-economic development of Ukraine**

Indicator	In fact, for 2015	In fact, for 2016	In fact, for 2017	In fact, for 2018
Number of registered unemployed at the end of the period (according to the State Employment Service), thousands of persons	490,8	390,8	354,4	341,7
Average monthly wage per employee:				
- nominal, UAH	4195	5070	7104	8865
- real,%				x
Wage arrears – total, millions of UAH	1880,8	2004,0	2368,4	2645,1
Sales volume of industrial products, millions of UAH	1351374,7	1565332,5	1926868	2261639,7
Volume of agricultural products, millions of UAH	544193,0	631105,0	690895,0	843295,0
The amount of construction work completed, millions of UAH	55917,5	70942,4	101074,6	136270,2
Exports of goods and services, millions of dollars USA	34523,3	32734,4	39486,1	43247,6
Imports of goods and services, millions of dollars USA	34273,8	35058,7	44697,6	52113,3
Balance (+, -), millions of dollars USA	+249,5	-2324,3	-5211,5	-8865,7
Retail turnover, millions of UAH	1018778,2	1159271,9	816553,5	928556,4
Freight, million tonne-kilometers	315341,8	323473,9	343057,1	331661,4
Passenger turnover, millions of passengers	97280,7	102239,4	99277,7	103792,4

Note. Data are given without taking into account the temporarily occupied territories of the Autonomous Republic of Crimea, Sevastopol and temporarily occupied territories in Donetsk and Luhansk regions.

Source: Ukrstat.org – Publication of documents of the State Statistics Service of Ukraine [ONLINE] Available: [https://ukrstat.org/uk/operativ/operativ2019/mp/op\\_u/op0219\\_u.htm](https://ukrstat.org/uk/operativ/operativ2019/mp/op_u/op0219_u.htm) [Accessed 05 October 2019].

Table 2

**Gross Domestic Product (GDP) in Ukraine from 2012 to 2019 (UAH million)**

Year	Nominal GDP (in actual prices)	Real GDP (in previous year prices)	Difference (real – nominal)	
2012	1408889	1304064	-104825	-7.4%
2013	1454931	1410609	-44322	-3.0%
2014	1566728	1365123	-201605	-12.9%
2015	1979458	1430290	-549168	-27.7%
2016	2383182	2034430	-348752	-14.6%
2017	2982920	2445587	-537333	-18.0%
2018	3558706	3083409	-475297	-13.4%
2019 (I quarter)	807755	762120	-45635	-5.6%

Source: Ministry of Finance [ONLINE] Available:

<https://index.minfin.com.ua/en/economy/gdp/> [Accessed 05 October 2019]

Based on the above data, the socio-economic situation of Ukraine for 2012 – 2018 according to Goskomstat the following:

The decrease in the number of unemployed, wage arrears is a consequence of the mass departure of citizens of the country for the purpose of employment in neighboring countries, in particular in Poland, Hungary, Russia. This is evidenced by the analysis of the following tables. The volume of goods, services and products sold is increasing due to the increase in monetary value. Demand for housing is increasing due to migration processes in the east-west country due to the Donbas war. Therefore, there is a trend of increasing construction volumes. Some IDPs are financially able to purchase new housing, which helps to leapfrog new developments in the western region of Ukraine. But freight and passenger traffic for 2018 has a positive upward trend.

Describing the level of GDP in Ukraine, it is worth paying attention not to nominal GDP, but to real, since GDP growth is a real increase in production rather than a rise in prices. Thus, it can be noted that in comparison with the previous year in 2017 the level of GDP increased by 5.4%.

34% of entrepreneurs say that the investment climate in Ukraine will improve in the next 6 months, and 48% believe that it will remain at the current level. These are the results of the European Business Association's Investment Attractiveness Index in the First Half of 2018 [12].

The index consists of three components: investors' assessment of the previous period, forecasts for the future, evaluation as of now. It is measured

every six months since 2008. A mark of three is considered to be neutral, indicators above three indicate positive shifts. In the first half of 2018, Ukraine's Investment Attractiveness Index was 3.1 out of a possible 5 points. The European Business Association has stressed that for the second consecutive year, the Index has been above three points. This means that the Index came out of the negative plane and went into neutral. Thus, at the end of 2017 it was 3.03, at the end of 2016 – 2.85, at the end of 2015 – 2.57. Since then, the Index has reached above three points in 2011 and amounted to 3.39 (Fig. 1). This was one of the largest indicators [12].

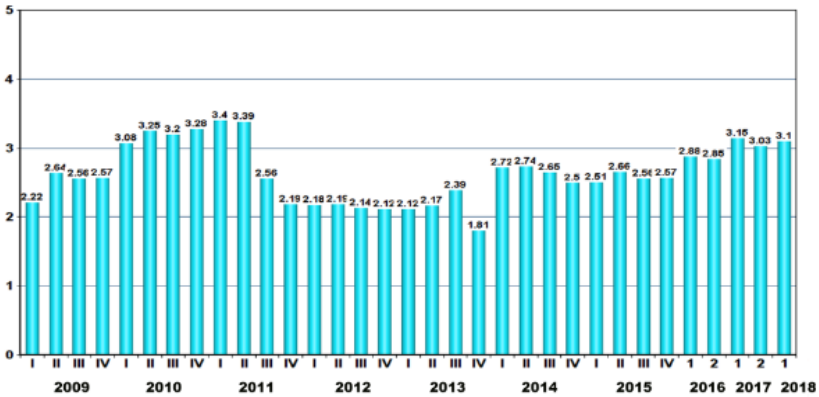


Figure 1. Fluctuations in the index of investment attractiveness of Ukraine

“There are positive developments. For example, dissatisfied with the investment climate in 2017 was 58%, now their number has decreased by 20% – this is significant. But we still have a lot to work on. 38% of investors are still dissatisfied with the business climate. We see a signal that changes are taking place in the country, but the pace cannot be slowed down. The biggest cause of dissatisfaction is the high level of corruption. 46.1% of entrepreneurs say this. The second place is the lack of confidence in the judicial system (40.6%), the third place is the lack of land reform (35.9%),” commented Anna Derevyanko, Executive Director of the European Business Association.

The business also hopes for quality changes. 28.1% consider the climate attractive for investment. And in order to improve the situation, it is necessary to start the work of the Anti-Corruption Court, reform the judicial system and restore confidence in it, open the land market, reduce the tax pressure on the payroll fund, shadow the economy, communicate more positive changes and cases, reduce the state apparatus (according to some

respondents, even up to 5 times). In addition, you need to develop and embody innovation, to introduce the second level of compulsory funded retirement insurance. According to the data, 30.5% of company executives believe that the business climate has improved over the last six months. Yes, the business assesses positively the adoption of three laws ("On Currency and Currency Transactions", "On Limited Liability Companies and Additional Liability Companies" and "On the Supreme Anticorruption Court"), the stability of the hryvnia, the noticeable development of electronic services and the digitization of the economy, which are the key to transparency. and openness. Investors also note the arrival of new foreign investors into the Ukrainian market, including in the retail sector, automatic VAT refunds and cancellation of the seal, the beginning of healthcare reform. At the same time, entrepreneurs say that there are such negative phenomena as smuggling, which hinders the legal business in the country, increased pressure on the control bodies, aggravation of the conflict in the East of the country and the start of the election campaign. The EBA expects government officials to take these data into account when planning their work for the next six months [12].

An important direction of economic development of Ukraine should be the rise of the tourism industry. Tourism is increasingly gaining ground in the independent industry of the national economy. The tourist flows of Ukraine in 2006 – 2018 are considered in Table 3.

*Table 3*

### **Ukraine tourist flows in 2006-2018**

Years	The number of Ukrainian citizens who went abroad is total	The number of foreign nationals who have visited Ukraine is total	The number of tourists served by subjects of tourist activity of Ukraine is total
2007	16875256	18935775	2206498
2008	17334653	23122157	2863820
2009	15498567	25449078	3041655
2010	15333949	20798342	2290097
2011	17180034	21203327	2280757
2012	19773143	21415296	2199977
2013	21432836	23012823	3000696
2014	23761287	24671227	3454316
2015	22437671	12711507	2425089
2016	23141646	12428286	2019576
2017	24668233	13 605 916	2250107
2018	26437413	14421241	2403987

Source: According to the State Border Guard Administration of Ukraine [ONLINE]

Available:[http://www.ukrstat.gov.ua/operativ/operativ2012/tyr/tyr\\_u/vigw2017\\_u.htm](http://www.ukrstat.gov.ua/operativ/operativ2012/tyr/tyr_u/vigw2017_u.htm) [Accessed 04 October 2019].

Over the past five years, the number of Ukrainian citizens traveling abroad has increased. Private trips accounted for the largest percentage, accounting for 98.46% in 2016, and 1.64% for tourism and business trips, according to the State Border Guard Service of Ukraine [http://www.ukrstat.gov.ua/operativ/operativ2012/tyr/tyr\\_u/vigw2017\\_u.htm](http://www.ukrstat.gov.ua/operativ/operativ2012/tyr/tyr_u/vigw2017_u.htm). We will consider the departure of Ukrainian citizens abroad in Table 4.

Consider the volume and structure of tourist flows of Ukraine by motivation. Outbound tourist flow has increased due to private travel. Ukrainian tourists went to Poland, Russia, Moldova, Egypt, Turkey. In recent years, tourist flows from around 170 countries have been directed to Ukraine.

*Table 4*

**Trends in the departure of Ukrainian citizens abroad in 2012-2017**

Years	The number of Ukrainian citizens who went abroad is total	From them – for the purpose of the trip		
		a business trip	organized tourism	a private trip
2012	21432836	362 631,00	641 836,00	20 428 369,00
2013	23761287	275 151,00	354 840,00	23 131 296,00
2014	22437671	170 720,00	201 541,00	22 065 410,00
2015	23141646	185 170,00	206 598,00	22 749 878,00
2016	24668233	156 157,00	224 646,00	24 287 430,00
2017	26437413	97 271	120 887	26 219 255

Analyzing the tourist flow during 2015-2018, we should note the trend of decline in inbound tourism in And the growth in the third quarters of the previous years. In Q1 2018, foreigners moved 3.2% less than in the corresponding period last year. In the 3rd quarter, the share of foreign tourists makes up about 33% of the total number of foreign tourists who came during the year, which is explained by the summer season and vacation period, in the 1st quarter. – 17-18%

Border countries have traditionally been leaders in visiting Ukraine: Moldova, Belarus, Russia, Poland, Hungary, Romania, Slovakia.

According to the results of 2018, the total revenues of the tourist tax and tax payments from the tourism industry increased by 20.7% – up to 4.2 billion hryvnias, revenues from tourist tax increased by 29.2% and amounted to 90.7 million hryvnias. In 2018, the State Border Service recorded an

increase in the number of tourists from non-border countries, including Europe: Spain – by 68%, the United Kingdom – 47.3%, Lithuania – 23.4%, Italy – 15.4%, Germany – 13.3%, France – 9.2%, India – by 57.4%, China – by 38.8%, Japan – by 38.3%, Israel – by 21.7% and the United States – by 19%. Border traffic on the contrary declined. Such changes in the structure of the tourist flow were the result of intensified promotion of Ukraine in the international tourism market, bilateral cooperation, visa liberalization, increase in offers of direct and budget air services. According to the data of Ukrainian mobile operators (PJSC “Kyivstar”, PJSC “VF Ukraine”, LLC “LifeSell”), 162.2 million movements of mobile subscribers by Ukraine were recorded in 2018, of which 139.8 million were Ukrainian and 22, 3 million – foreign. Transcarpathian, Odessa and Kharkiv (acquiring the role of business tourism center) regions are the most popular for foreigners to visit. Ukrainians mostly visit Kyiv, Lviv, Poltava, Cherkasy and Dnipropetrovsk regions [8].

In terms of sectoral priorities, foreign investors are different: today, foreign direct investment is available in all sectors of the Ukrainian economy. At the same time, most investors represented in the Ukrainian market are willing to invest in the manufacturing industry, as well as the wholesale and retail trade – where new products are emerging, the range is changing, costs are quickly being paid off and low commercial risks are being paid. Also popular are industries that do not require long-term investment and new technology, such as the financial and real estate sectors.

Although investments are attracted to high-yield industries, they do not strengthen the country's competitive position in world markets. Excessive foreign direct investment in the financial sector, on the one hand, fills the financial system with circulating funds, which contributes to the stable liquidity of the country's financial system, and on the other, creates the grounds for extensive development of the national economy.

This structure of foreign direct investment does not allow Ukraine to fully integrate into the global value chains and is one of the reasons for the low percentage of Ukraine's high-tech exports to the world – 7.2% of the country's industrial exports. Foreign direct investment mismatch with the needs of economic modernization, development of export of high-tech products leads to consolidation of the raw material specialization of the Ukrainian economy in the world market [13].

According to the report, Ukraine focused on agriculture, resource extraction and service delivery (which is dominated by trade and real estate operations). The country pays less attention to manufacturing and information, education and research services. And those sectors of the economy that maximize value added (finance, insurance, tourism, education, medicine, R & D, information, communications) are bypassing us. Tourism contributes 10% to world GDP (for comparison, in our country this figure is only 1.5% of GDP), and the number of jobs related to this field is 11% [7].

Recently, interest in Ukraine has increased significantly. Last year alone, 1 million 930 thousand foreigners and nearly 3 million domestic tourists visited the capital. Although in general, the country has a negative tourist balance. According to the State Statistics Service, the gap between the number of Ukrainian tourists traveling abroad and foreigners who visited Ukraine is about 10 million people a year: 26 million Ukrainians versus 15 million foreigners (many of whom, in addition, travel in transit).

Attractive for European tourists are the natural, recreational and cultural-historical resources of Ukraine. According to the level of provision of historical, natural, cultural resources, ethnographic heritage and architectural monuments that may interest foreign tourists, our country occupies one of the leading places in Europe [10]. The development of cognitive, health-improving and ecological tourism in Ukraine is facilitated by the temperate climate, the peculiarity of the natural landscapes, the presence of various sanatoriums and resorts, unique natural and therapeutic sites, flora and fauna, historical and cultural monuments.

For potential investors, there are certain indicators and factors that shape the attractiveness of Ukraine's tourism. These include stimulating and disincentive indicators of formation of tourist attractiveness of Ukraine (Table 5) [3].

Having analyzed Table 5, we can conclude that all the stimulating indicators that would contribute to the formation of a positive investment climate in the tourism sector of Ukraine are offset by destabilizing factors.

Table 5

**The main stimulating and disincentive indicators of formation of tourist attractiveness of Ukraine for investments**

Key incentives		The main disincentives	
Indicator	Place	Indicator	Place
Initial amount of funds for tourism business	44	Prevalence of foreign ownership	122
Number of hospital beds	3	Respect for property rights	120
State expenditures for supporting tourism development	36	The strictness of the laws governing the protection of the environment, the availability of environmental standards	124
Active participation of the state in international tourist exhibitions and fairs	41	Implementation of environmental regulation	119
Availability of domestic airlines	42	Transparency and stability of the legal framework regarding the regulation of the natural resources distortion of the destination	115
Number of domestic airlines	31	State priorities for tourism development	125
Quality of railway infrastructure	30	Effectiveness of state marketing policy and branding in tourism	113
Transport network	42	Quality and development of air transport infrastructure	105
Use of Visa Cards	33	Highway quality	105
Use of Internet resources in business	44	The effectiveness of the tax system	126
Purchasing power parity	23	Pricing policy in the hotel industry	114
Licensed professional secondary education	50	Ability to hire foreign workers	106
The quality of the educational system	40	Prevalence of HIV-infected people	110
Hiring and firing practices	11	Attitude of the population to tourists	119
A number of world cultural landmarks	40	Protected territories	103
		The quality of the natural environment	123

In order to attract foreign investments, increase the economic potential of the tourism industry, strengthen integration ties, broadcast regional achievements and initiatives for the development of various types of tourism, the task of forming a positive brand of Ukrainian territories is of particular importance, which in turn will allow to gain an additional chance in competition for competition, investments, exports and impact on the global tourism market. Ukraine can become a tourist attractive country, as the state



has considerable tourist and recreational potential: favorable climatic conditions, as flat and mountain landscapes, rich flora and fauna, developed network of transport connections, a large number of cultural and architectural monuments. According to the State Statistics Committee of Ukraine, over 130,000 monuments are on the state register, 458 museums and 61 historical and cultural reserve are functioning [4]. At present, the level of development of national tourism is characterized by structural imperfection, regional deformation and imbalance, which requires more active participation of state structures in the field of sectoral regulation and purposeful policy for the entry of tourism to the world level.

Therefore, in order to create an attractive image of the tristical branch of Ukraine in the international investment market, a number of problems need to be addressed:

- create a separate body that will be responsible for the effective development of tourism and promotion of the "Ukraine brand" in the international arena;

- conduct visa liberalization – abolishing entry visas will bring more financial benefit to Ukraine than the high fee for obtaining such a visa (which often leads to corruption);

- expand cooperation with China and India – these two countries can generate the largest flow of tourists;

- simplify the visa regime for investors and pensioners. This will increase the level of investment attractiveness of the country and increase the flow of investment. Retirees who have savings for travel have the potential to increase the flow of tourists;

- to bet on tourism diversification: gastronomic, extreme, cultural (castle), green, medical and more. For example, to develop medical tourism by abolishing the visa regime for the long term, and encouraging foreign investors to invest in recreational facilities. This will create new jobs, increase the flow of capital into the Ukrainian economy and open a health-tourism Ukraine for the whole world;

- reduce the VAT rates for accommodation and catering (hotels and restaurants) provided for in the EU Association Agreement;

- abolish tourist tax as a tax that is very expensive to administer for both the state and business. Let the tourist spend money on products and services, thus replenishing the budget;

– increase the level of knowledge and use of English in the country. This will improve the quality of service and increase the loyalty of foreign tourists;

– to provide tax holidays for investors for 3–5 years on the lease of complexes and land (as in the case of Turkey), state in particular. This will not only attract foreign investment but will also create new jobs for the Ukrainian economy and a significant inflow of capital, domestic and foreign.

The main thing is to understand that every tourist is a potential investor in the economy of our country. We must create all the conditions for him to want to spend money in Ukraine. Increasing the tourist attractiveness of Ukraine in the world tourism market will not only create a positive economic image of the country, but also become an important tool to protect its economic interests and ensure the competitiveness of the national tourism product.

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## **COMPUTER MODELING OF TOURISM FLOWS IN UKRAINE**

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The tourism industry can contribute as channel for the socio-economic development of the country, as a massive foreign exchange earner, as a big generator of employment through its labour-intensive nature, including employment for women and marginalized groups, as an enduring medium of infrastructure development and poverty alleviation as well as a genuine promoter of cultural harmony and peace. The greatest founders of these

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