

THE INNOVATION IMPERATIVE FOR UKRAINE

[IPR GROUP]



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The popular upheaval in Ukraine has primarily been a strive for better governance, more effective institutions and a state that serves its people. It was, after all, frustration over widespread corruption and shadow economy that has now given rise to a new political order in the country. But the strategic imperative stretches much larger over the current situation and requires fundamental changes in the Ukrainian society – drastically restructured institutions, good

governance, business climate conducive to development and modernization of Ukraine's economy. So, the need for rapid and innovation based economic reform could not be more urgent.

With a boundless potential as Europe's sixth largest consumer market, a potential leader in global food value chains, and as a technology and energy hub, Ukraine initiated a systemic economic and political reform based on institutional change underpinning a wholesale review of the social contract between society, the business community and the state. This is a scenario in which concerted action by all stakeholders in society creates an environment that allows the country to capitalize on its large domestic market, resource endowments, highly

educated workforce, and developed science.

Theoretical background

International positive experience testifies that the most successful, innovative systems of the world formed around universities: Silicon Valley - around Stanford University, Boston innovative metropolis - around MIT, Swedish Kista Science City - around the Royal Institute of Technology, etc.

According to the "Triple Helix" model of Henry Etzkowitz, Professor of Stanford University (USA), a university is a place through which pass thousands of students with new ideas, and these ideas under favorable conditions can be successfully commercialized. All successful innovation systems of the world are united by a common

principle. There a university is not only a participant in the innovation process, but also acts as its center. A university became a major application center of state efforts and resources for innovation development. Universities of this type are called research, or entrepreneurial. Of course, Research University maintains its academic component, but it works simultaneously on three interrelated areas: education, research, innovation and the introduction of high-tech output to markets or technology transfer.

The Triple Helix of **university–industry–government** relations was compared with alternative models for explaining the current research system in its social contexts. Communications and negotiations between institutional partners generate an overlay that increasingly reorganizes the arrangements in question. The institutional layer can be considered as the retention mechanism of a developing system. The national organization of the

system of innovation has historically been important in determining competition. Reorganizations across industrial sectors and nation states, however, are induced by new technologies. University research may function increasingly as a locus in the “laboratory” of such knowledge-intensive network transitions.

If Adam Smith is the patron saint of classical economics and Keynes of Keynesian economics, it is Joseph Schumpeter who is the patron saint of innovation economics, especially with his classic 1942 book *Capitalism, Socialism and Democracy*. Writing around the same time as Keynes, Schumpeter had a decidedly different take on the economy and on economics. For Schumpeter it was evolving institutions, entrepreneurs, and technological change that were at the heart of economic growth.

Innovation development in Ukraine

The role of innovation is viewed as crucial in all developed economies. Innovation increases competitiveness and economic growth; strategy based on innovation makes it possible to foster employment and welfare on a larger scale. Innovation based economic reforms in Ukraine gained important intellectual, moral, and financial support from international financial institutions and individual countries.

The general goal of the necessary reforms is clear to many Ukrainians, regardless of which part of the country they live in: replace the existing unfair and inefficient system with the one that increases economic freedom for all; and respect the rule of law, thus generating more rapid and sustained economic growth. It is not intellectually difficult to suggest what form a proper package of reforms should take. It has to be broad and introduced rapidly. It should include measures that make both economic and political sense, such as deregulation to

smooth establishment of enterprises, quick auditing and, following appropriate investigation, dissolving the most corrupt parts of the state. The gas sector, a focus of high-level corruption, needs to be restructured; and the stolen assets recovered from officials. Introducing these measures would reduce resistance to the elimination of massive fuel subsidies.

Describing the innovation development vector of Ukraine the head of the EU Delegation to Ukraine Ambassador Ian Tombinsky indicated that Ukraine has officially registered the first five industrial parks - the places where it is planned to create high-tech industries. Their certificates have already recently received Lviv, Kremenchug (Poltava region), Korosten (Zhytomyr region), Valley (Ivano-Frankivsk region), and Slavuta (Khmelnitsky region). According to experts, the creation of industrial parks will allow attracting about \$ 10 billion investment to Ukraine for 3-5 years.

Ukraine starts developing "smart industries" like instrument engineering. As Ambassador Tombinsky said - "In Ukraine, 30% of students want to learn technical sciences, and in the EU - only 7-8%. This means that Ukrainians can express themselves in a new field, and education here - the best investment of the state ". Kiev is ready to support innovation providing assistance in the form of tax holidays, simplified licensing formalities, and infrastructure development.

American Chamber of Commerce (ACC) in Ukraine initiated the launch of long-term joint project with aerospace companies in Kharkov and Dnepropetrovsk within the framework of the implementation in our country of investment projects in the manufacturing sector. The project's anticipated investment is about \$ 10 billion targeted at commercial space exploration.

Comparable long-term projects in terms of investments are also discussed

in the electricity and heavy engineering sectors. The ACC President also indicated that it is important to attract investors in the strategic direction of the Ukrainian economy and the Chamber will combine its services as advisor and consultant, and an organization that can express the interests of big capital.

To make the projects effective, result and innovation oriented, the Trade Mission of the United States in conjunction with other US governmental institutions initiated creation of the Innovation Council, which focuses on developing systems required for the growth of entrepreneurship, development of legal culture and infrastructure for innovation in Ukraine.

Money for reforms

The International Monetary Fund (IMF) has agreed to provide an important support to reforms in Ukraine and to provide around \$18 billion to help the country. The IMF promised to grant

Kiev the lifeline over the next two years.

The money will help to stabilize Ukraine's economy. However, the IMF funds come with stringent terms; it is asking for a number of economic reforms particularly in energy. Energy sector reform will focus on reducing this sector's fiscal drag, while attracting new investment and enhancing efficiency and promoting energy reform.

The IMF has a central role in leading the international effort to support Ukrainian reform, lessening Ukraine's economic vulnerabilities, and better integrating the country as a market economy in the multilateral system, said a G7 communiqué.

IMF support will be critical in unlocking additional assistance from the World Bank, other international financial institutions, the EU, and bilateral sources.

The European Commission offers a \$15 billion package for Ukraine.

The US aid package includes \$1 billion to Ukraine in loan guarantees and another

\$150 million in direct assistance.

Japan's Prime Minister Shinzo Abe committed to provide Ukraine with almost \$1.5 billion in the form of loans and grants. Japan specified that the money will help economic reform, as well as improve housing and sanitary conditions in Kiev.

Structural reforms in Ukraine could promote the country's economic growth, as it will give a signal to investors about the efforts of authorities to create a favorable business climate.

The IMF and individual developed countries have pledged multi-billion dollar aid packages, tied to economic reforms, aimed at helping Ukraine bring its financial system in order and provide a foundation for growth.

The Association Agreement with the EU that Ukraine signed in Brussels on March 21, 2014 came at a high cost. The EU became highly intrusive in fostering fundamental economic and social reforms in Ukraine. Despite a number of political

and security difficulties, Brussels and Kiev quickly seized the chance to build up a Ukrainian middle class protected by the rule of law and transparency.

Opening up the economy to transparency is the first step toward modernization. Ukraine's government establishes clear property rights and procurement rules as well as the judicial system which will be fully accountable and no longer subject to bribes or intimidation by politicians.

The U.S. State Department plans to deepen partnership with Ukraine in the field of nuclear and energy security, cooperation in the sphere of science and technology. For this purpose the Commission for Strategic Partnerships at the government level resumes its activity. In addition, the planned US-Ukrainian Business Summit in Washington will bring together representatives of governments, companies, American investors in Ukraine, as well as key economic and

legal experts on the Ukrainian market.

Overall support from the broader international community will exceed \$35 billion over the next two year period in the form of soft term credits and grants. The international financial support, apart from its direct purpose, will inevitably generate inflow of investment capital to the reforming Ukrainian economy.

Legislation for innovation

While something novel is often described as an innovation in economics, management science, and other fields of practice and analysis it is generally considered a process that brings together various novel ideas in a way that they have an impact on society.

Innovation differs from improvement in that innovation refers to the notion of doing something different rather than doing the same thing better. Innovation is the development of new value through solutions that meet new needs, or adding value to

old customers by providing new ways of maximizing their current level of productivity. It is the catalyst to growth.

Three years ago, the EU completed the project which contained analysis of Ukrainian legislation in the sphere of research, development and innovation activity and worked out suggestions for amendments for legislation. (EU Project “Enhance Innovation Strategies, Policies and Regulation in Ukraine”, 2011)

The following topics are covered:

- regulation of direct financing of scientific, technical, and innovation activity;
- determination and realization of priorities for innovation;
- development and implementation of state programs in R&D in innovation sphere;
- legal status of innovation infrastructure entities;
- public procurement in R&D;

- competitive financing of R&D, financial and credit support to innovation activity;
- tax incentives for innovation activity, etc.

Suggestions on amendments to the legislation of Ukraine as well as the legislation efficiency assessment were provided.

Towards the Innovative Development

To accelerate innovation development of economy of Ukraine the following steps will be taken:

- Establishing an effective public policies aimed at prioritized scientific and technological development;
- Creating innovative-driven development model of the state along direction corresponding to natural and human resources of the country;
- Identifying areas and research institutions, where there are appropriate conditions for the creation of the so-called “breakthrough islands” based on cutting-edge technology;

- Completion of the formation of a single legislative field of innovation by amending previously adopted laws and their mutual agreement on the basis of research produced within the EU project.

Empirical evidence worldwide points to a positive link between technological innovation and economic performance. With a view of innovation oriented reforms Ukraine increases support for scholars and research to bridge the gap between science and production. The newly created innovation fund will be supporting promising ideas that emerge from Ukrainian universities and research institutions, assist with venture capital, and help implement ideas to mass production. The fund is a first step in creating a financial infrastructure to support innovation and improve the efficiency of the national economy.

Currently, innovation economics is a growing economic doctrine that reformulates conventional economics theory so that

knowledge, technology, entrepreneurship, and innovation are positioned at the center of the economic model rather than seen as independent forces that are largely unaffected by policy. Innovation economics is based on two fundamental tenets: that the central goal of economic policy should be to spur higher productivity through greater innovation, and that markets relying on input resources and price signals alone will not always be as effective in spurring higher productivity, and, hence, economic growth.

The increasing awareness of the multiple connections of technological change and innovation with advances in science, on the one hand, and the set of socio-economic institutions operating in a given context, on the other, encourages the conceptualization of “**science, technology, innovation and growth systems**” (STIGS) as appropriate subjects for policy-oriented research. The current economic crisis offers the temptation to look only for

immediate remedies for the crisis. As important as such measures are, there is a real need to look for structural reforms that would enhance growth in the long run. Policy tools addressing these long run concerns are the various ways in which governments support private sector R&D. They include a wide variety of policies, starting from education and intellectual property rights, and ending with tools that reduce the cost of R&D to companies.

Conclusion

But it is only within the last 15 years that a theory and narrative of economic growth focused on innovation that was grounded in Schumpeter’s ideas has emerged. Innovation economics attempted to answer the fundamental problem in the puzzle of total factor productivity growth. Continual growth of output could no longer be explained only in increase of inputs used in the production process as understood in industrialization. Hence, innovation economics focused on a theory of

economic creativity that would impact the theory of the firm and organization decision-making. Hovering between heterodox economics that emphasized the fragility of conventional assumptions and orthodox economics that ignored the fragility of such assumptions, innovation economics aims for joint didactics between the two. As such, it enlarges the Schumpeterian analyses of new technological system by incorporating new ideas of information and communication technology in the global economy.

Indeed, a new theory and narrative of economic growth focused on innovation has emerged in the last decade on the basis of other schools

and thoughts in economics, including Schumpeterian economics—provides an economic framework that explains and helps support growth in today's knowledge economy.

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Doctor of Economic Sciences, a world renown specialist in the field of international economic relations. For many years he worked as an economic affairs officer for the United Nations Conference on Trade and Development (UNCTAD) in Geneva, and was the founding Chairman of the National Centre for the Implementation of International Technical Assistance to Ukraine with the rank of Minister.

Dr. Kistersky is a member of the Academic Council of the United Nations System, USA. He has conducted research in the world's most reputable research centres and is widely published in Ukraine, Switzerland, USA, Great Britain, Germany, Russia, Poland and other countries.

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He is the author of numerous articles and 14 books on key issues of international economic relations and international finance. He lectured at the Ukrainian National University of Economics, Konstanz (Germany), Brown, Stanford (USA), Higher School of Business (Poland) and other leading world Universities and research centres.

Leonid Kistersky provides for high-level advise and consultancy services for public administration in Ukraine – Ministry of Finance, Ministry of Economic Development and Trade, Ministry of Education, Ministry of Labour and Social Policy, to the Deputy-Chairman of the Committee on Economic Policy of the Ukrainian Parliament and others. Dr. Kistersky is a member of Councils and Academic Boards of a number of Research Centers, Universities, and journals.



Kirill KISTERSKY, Managing Attorney, IPR GROUP

1999 – 2005 – 5-year practice necessary to qualify for the Attorney's Examination; worked as Paralegal, Attorney's assistant, Trademark Administrator of the IPR GROUP;

2002 – Admitted to practice as Patent and Trademark Attorney;

2005-2007 worked as Trademark Attorney of the IPR GROUP;

Since 2007 - Managing Partner of the parent (Ukraine-based) company IPR GROUP;

Since 2010 Managing Partner of the branch offices of the IPR GROUP (12 countries of CIS);

Mr. Kistersky went through all career stages from the beginning. He specializes in Trademark Law.

Practice area: the appeal of decisions of the National Patent Offices (objections, appeals) and IP Litigation.

For over 15 years, Mr. Kistersky successfully represents clients in Ukrainian courts of all instances; including in non-use cancellation cases, anti-counterfeiting and bad faith registration cases; efficiently interacts with the customs authorities in counterfeiting related matters. Mr. Kistersky has a vast experience with the investigation of sources of counterfeit in the country, initiation of police raids and representation right holders within raids, drafting claims and further handling cases in courts, entering records on the intellectual property objects to the custom register and communication with the custom on the related matters.

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