

Prospects For Forming The Export Potential Of The Aviation Complex Of Ukraine On The Basis Of Public-Private Partnership

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Abstract: *The article deals with the process of formation of the export potential strategy of the aviation industry. The article describes the peculiarities of aircraft manufacturing and the building blocks which reflect the general potential of the aviation industry of Ukraine. Important and extremely relevant for the Ukrainian economy is the use of recommendations in combination with the creation of a favorable investment climate in the country through the formation of competitive markets, observance and fulfillment of all conditions and obligations assumed by itself in accordance with signed, ratified international agreements, updating of approaches to formation export potential of the industries of the country's economy. The result should be an increase in the level of economic security, the introduction of effective mechanisms of cooperation between the state and private partners, and, ultimately, raising the socio-economic level of living. The article analyzes the successful international and national experience of using public-private partnership (PPP) and evidence that it is an instrument of partnership, equal and mutually beneficial cooperation between the state and territorial communities in the person of the relevant state authorities or local self-government bodies and business, within the framework of which joint efforts are directed at realization of projects which allow to solve important socio-economic and other problems. The special interest of the authorities in the use and development of the PPP is related to the benefits of this mechanism for attracting resources (financial, investment, technological, and management), especially in the current situation of significant discrepancy between the needs of economic development and available budgetary resources. A professional, consistent approach to the use of PPPs can ensure the use of internal development resources at the regional and local levels, which will have a positive impact on the implementation of the new state policy. The participation of a private investor can ensure more efficient use of financial resources and involve the experience of a private partner for the effective implementation of PPP projects.*

Keywords: *aviation industry, potential, strategy, aviation complex, development of export potential, aviation complex, economic security, mutually beneficial cooperation, state policy, resources, international experience, Public-Private Partnership.*

INTRODUCTION

The aviation industry is associated with technological complexity, high-added value, dual-use applications, continuous innovation and strategic relevance. Therefore, it is seen as a matter of national interest, intended to achieve economic goals and for security purposes. Nevertheless, large investments in R&D, a high level of engineering knowledge, complex technical and industrial assets and advanced management skills necessary to develop aircraft manufacturing capabilities together enabled only a few countries to produce complete aircraft. Those who traditionally rely on government intervention to keep the industry afloat during limited demand are somewhat right, so as those who rely on constant political support to gain competitive advantage and increase their share in the international market. Indeed, aviation enterprises operate in an atypical oligopolistic market that is influenced by political variables. Their effectiveness rises from both corporate strategy and government policy. Because the aviation industry is usually associated with technological superiority, international prestige, military and industrial skills, it is not surprising that the USSR had a very reliable aircraft production system producing 25 percent of all aircraft and 40 percent of all military aircraft in the world [1]. This output comprised mostly military aircraft and the defense spending in Soviet GDP was high – 25% [2].

During the Cold War, Soviet government controlled all aspects of aircraft production as part of a centrally planned system focused on advanced technologies. Under the military and technological rivalry with Western countries, the Soviet aviation industry was characterized by a strict division of labor in separate departments. Such an excessive specialization entailed multiple inefficiencies and a lack of synergies between various organizations involved in the production process. The Ministry of Aviation was responsible for coordinating activities of an entire industry and had six research institutes dealing with aerodynamics, engines, materials, equipment, production technology, and performance. Design bureaus were responsible for competing aircraft structures, while the manufacturing enterprises began production to achieve specific goals but did not play any role in R&D. In the absence of market incentives, supply chains were structured around political interests, which further hampered economic efficiency. Economic rationality was clearly not part of the Soviet intent. Profitability was just as unimportant as competition as long as demand was guaranteed by the state – the industry benefited from defense expenditures and sales on international markets in allied countries. With such a benefit, the Soviet aviation industry experienced continuous technological development, reaching an unsurpassed quality of 650 fighters and attack aircraft in 1989. The progress stopped with the end of the Cold War. Suddenly, the world was no longer divided into two antagonistic spheres of influence and the global military spending declined. International competition in cost, quality and performance become a new rule of the game. The Soviet Union split into 15 republics, and although Russia inherited 85 percent of the Soviet aviation industry [1], political disintegration provoked fragmentation of once centrally coordinated industry, which segments scattered across independent countries.

The Antonov Design Bureau, which was a key component of Soviet aviation industry, now belongs to Ukraine. In fact, 30% of Soviet design and production facilities were located in Ukraine. Thus, Russia and Ukraine, as the greatest heirs of Soviet industrial power, have at their disposal technological and industrial resources to become independent centers for aircraft production. However, both countries faced serious problems, which they had to overcome to survive in post-Soviet times. In particular, a deep reconstruction in production and management sectors is needed to adapt to new market conditions and remain world's top aircraft manufacturers.

Developing countries often have ambitions to become top players in commercial aerospace industry but this idea remains a utopia due to a fixed duopoly in which Airbus and Boeing dominate. Ukraine is no exception, so projects for regional leadership in the aerospace industry took a number of forms. However, Ukraine is a special case, as it still has the opportunity to catch up.

Recognized western players view other countries with aviation production as additional competitors in the long run. So far, globalization-induced growth significantly outweighed the competitive redistribution. Speaking of non-Western companies, AVIC (China), TAI (Turkey) and Dynamics (India) were able to become first-level suppliers or manufacturers of small gliders. There are many manufacturing and assembly facilities in developing countries but they are often subsidiaries of well-known western players. There are very few examples of companies from developing countries that act as the first-level or system

integrator in this area (e.g. Larsen & Toubro, TAI). Embraer, an aircraft manufacturer, which successfully entered the regional aircraft market, is a remarkable exception. In the segment of commercial aircraft with over 150 seats, Chinese AVIC launched a COMAC 919 project. The plane is scheduled to be in service in the next few years [3].

The Ukraine inherited a large part of the former Soviet aviation and space complex. One of the seven bureaux of the former USSR responsible for civilian aircraft development has been located in the country [4]. The Ukrainian aviation industry currently includes more than 50 enterprises, including a number of subsidiaries of Russian companies. Two of them are crucial for industry transformations – the Antonov State Company in Kiev and the Motor Sich Public Joint Stock Company in Zaporizhia. In 1989, over 150.000 workers and engineers were employed in the aviation industry of Ukraine. By the end of 2001, the total number of employees dropped by more than 60 percent [5]. From the very beginning, the industry was not created as a separate structure but as part of the aviation industry of the former Soviet Union. This means that the level of cooperation in technology and manufacturing was exceptionally high. Barriers to entry the aviation market were very high and relevant technical capabilities could be created only over a relatively long period of time [6, 7]. The aviation industry in the former Soviet Union was part of the military-industrial complex, which had a well-developed system of subsidiaries with quality control [8]. At a time when 80-90 percent of aviation and space industries were operating in Russia, other former Soviet republics had to rely heavily on deliveries from Russian plants. There was no special metallurgy for the aviation industry in Ukraine; 85 percent of equipment was produced at enterprises located in Russia. Nevertheless, Ukraine occupied a special place in the former Soviet aerospace complex, mainly due to the production of engines for several Soviet aircrafts and the production of well-known cargo and passenger airplanes.

However, Ukraine faced significant difficulties in reorganizing its economy after the collapse of the Soviet Union, and to date, some argue that it has not yet reached the production levels recorded in 1991. However, these data may be unreliable and the real situation could be better. The same picture was a case of many countries in Central and Eastern Europe in the nineties. The transition to new economy entailed broad and significant changes, even with reforms in a delay. In fact, Ukrainian GDP per capita is higher than in China. However, the number of cars per 1000 inhabitants is slightly above 100, which is half as much as in Bulgaria. The number of computers per capita is lower than in Morocco and is about one fifth of the number registered in Hungary and Poland. However, after the crisis of 1998, Ukraine found itself a shortcut – the economy became stabilized, the economic growth slowed down in pace due to a deficit of current transactions [9]. Under the current conditions, Ukraine needs a new economic impulse and aerospace enterprises that can become this impulse.

The general potential of the aviation industry is a combination of internal possibilities and external economic markers and resources, which create the background for the sustainable development and meet the targets, strategic and tactic goals of an enterprise in the area of aviation activities.

The potential of the industry is enabled not only by aircraft plants and air carriers, but also by the availability of the skilled workforce and the highly developed scientific background. We should also note that not the last role in growing the potential of aircraft plants is played by some shifts and changes in the legislation and by launching programs of the industry development. The ultra-efficient usage and the combination of science and manufacturing - is a goal that will help to build the cooperation in the industry and enter the international markets with the competitive products. The potential implies the smoothly-running cooperation with overseas partners. At the modern stage of reengineering and development of the aviation industry is raised a question of refusing from the traditional partnership in manufacturing the aircrafts of an AN family, but it shall not damage the further search of partners in other countries, as the independent entry into the new markets has a certain range of complications and risks. It is no question that is just a temporary situation of uncertainty, will change under the influence of positive shifts in the political and economic area. Achieving the competitiveness of Ukraine's economy in the domestic and foreign markets, ensuring sustainable growth of the national economy and full integration into the world economic space is largely conditioned by the effective realization of the current foreign economic policy of the state through the mechanism of state regulation, the formation of investment attractiveness of the economy, and the realization of the functions of public-private partnership. Factors that influence the development of the potential of enterprises are considered as technological, organizational and socio-economic conditions of production that contribute to the effective use of the strategic potential of enterprises of the aviation complex of Ukraine.

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conditioned by the effective realization of the current investment policy of the state through the mechanism of state regulation of investment activity, formation of investment attractiveness of the economy, realization of functions of state regulation of investment processes. The process of formation of an enterprise potential is generally characterized by one of the directions of its economic strategy and lies in creating, providing and organizing the system of recourses and competences in order to make the result of their cooperation one of the ways to success in accomplishing the mission and meeting the targets of the enterprise performance. The strategic potential of an enterprise is characterized not only by the existing recourses but also by the potential opportunities of an enterprise to increase the efficiency of their usage. As such opportunities we can identify the qualifications of employees, the existence of recourses, minimizing risks at fulfilling the set tasks. Managing the process of the strategic potential formation of an enterprise in a volatile and unforeseeable environment is extremely important, as it gives a possibility to analyze the influence of extrinsic and intrinsic environment factors and to predict the existence of potential dangers and ways of their elimination. Currently an enterprise encounters more and more ambiguous risky situations which directly influence the general strategy of its performance. These factors can be outlined, defined and minimized by their risk factors while conducting external economic activities.

The factors which have an impact on the development of an enterprise are seen as such persistent changes in the productive forces, technologies, organization and the social and economic conditions of manufacturing, that boost the efficient usage of the strategic potential.

The aim of the article is to research the modern ways of building-up the export potential in the aviation industry, which has a significant value for the further development. Although the main reasons of slowing down the development pace of the aviation industry can be defined as the shortage of aviation inventions and the intellectual resources, as well as the absence of the active international collaboration with the strategic partnership countries.

MATERIALS AND METHODS

The methodological and informational background are the scientific works of national and overseas scientists, internet resources devoted to the aviation industry, statistic data of the National Institute of the Strategic Research. While making the research of the export potential of an enterprise are used the methods of generalization, comparison, structural and logical analysis.

RESULTS AND DISCUSSION

The main reasons of slowing down the pace of development of the national aviation complex are the shortage of technological innovations and intellectual resources, and also the absence of active international collaboration. There is observed the worsening of the age structure of the workforce potential of the domain that threatens its perspectives. The ways of accomplishing the potential of the industry lie in strengthening the material and technical background of national enterprises, implementing new forms of providing services on carrying passengers, building and placing in service new terminals on the base of some airports. The infrastructures, technological equipment, the methods of management on the serial aircraft manufacturing sites don't meet the modern market requirements. Consequently, with the aim of further developing the aviation potential we have to form a strategy of aircraft manufacturing taking into account the state of the external market, the existing in Ukraine scientific and technical, manufacturing and the financial potential. Business entities should implement some steps for improving the renewal of the fixed assets, scientific research funding, the cooperation with businesses that are engaged in foreign economic activities and investment promotion.

National enterprises, although being not ultra-efficient and productive by the modern standards, however may become pioneers in the development of not only the investment attractiveness of the industry, but also of the scientific and research potential of the country, international affairs, grants, etc. The aviation potential of Ukraine if used efficiently and developed is able to provide the steady position of the country among the leading aviation countries of the world. Ukraine will have the leading positions in the aircraft manufacturing not only on the internal, but on the world market as well, and will be able to compete with leading countries in this industry on the world stage.

The strategic potential of an enterprise is a special economic category, as it reveals not only the maximum possible volumes of production with the uttermost and the most optimized resources usage, but also defines the ability of an enterprise to foresee the potential changes and threats in the external surroundings and to be ready to react in accordance with these changes.

Main functions of state regulation of foreign economic activity should be directed to ensuring sustainable development of the economy to achieve European standards, ensuring national security through:

- Development of a strategy for socio-economic development,
- Substantiation of the main goals and priorities of economic development of Ukraine;
- Formation of investment attractiveness of the country's economy;
- promoting the development of the investment market on the basis of laws;
- Increase of potential of the branches of the economy at the expense of public-private partnership;
- ensuring the direction of investment in the development of the production of competitive goods and services.

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private party in other forms of public-private partnership, the current legislation establishes a clear procedure and conditions for the selection of concessionaire. A sufficiently detailed regulation of concession relations provides a sufficient level of legal certainty and allows full implementation of concession projects. Lease relationship (leasing) and joint activities can be considered as a mechanism for attracting private investment, in case if the project does not involve significant investments and large-scale construction. The mechanism of property management does not involve the payments for the property management and usually does not involve the significant amount of investment in assets transferred under such agreement. The investment contract is not sufficiently regulated in the current legislation, which leads to difficulty of mechanism to be used for structuring of investment projects. According to the central and local executive authorities in Ukraine, as of 01.01.2017, there are 186 projects that are implemented on the basis of PPP (153 concession agreements, 32 joint venture agreements, 1 public-private partnership agreement). Over 60% from the total number of the PPP projects were implemented in the field of waste management, 20% in the area of water collection, purification and distribution, more than 8% in the infrastructure sector and more than 3% in the area of production of heat, its transportation and supply.

The worldbank recommendations for Ukraine and the first results of their implementation. According to the recommendations of the World Bank, Ukraine needs to harmonize the Law on Concessions and the Law on PPP, repeal sector specific concession legislation and draft a new Law on Concessions, introduce doctrine of contingent commitments, improve the compensation mechanism when terminating a concession contract, improve the procedure for project estimation, and introduce the doctrine of management of PPP fiscal risks. As of October 2017, the Ministry of Economic Development and Trade has already taken a number of measures to implement the recommendations of the World Bank. In particular, comprehensive amendments were made to the Law on the PPP, as well as to the Law on Concessions, a new approach to the concession payments calculation was introduced, the procedure for holding a tender for identifying a private partner and conducting an effectiveness analysis of PPP was improved, a clear mechanism for replacement of a private partner was introduced, the work on a new law "On Concessions" is underway. Main stages of the PPP project preparation. Based on international practices, the following main stages of the PPP project preparation and implementation can be identified:

- Identification (including the formulation of the initial concept of the PPP project and the conduct of a preliminary feasibility study for large-scale projects, as well as additional studies if necessary);
- Concept of the PPP project, culminating in the preparation of the feasibility study for the project;
- Assessment of the PPP project to analyze the effectiveness of the PPP;
- Investigation of interest among prospective investors by distribution of information on the main characteristics of the Project;
- holding a tender to identify a private partner and signing a contract ("commercial closing");
- Attraction of financing for the Project implementation ("financial closure"); - monitoring and control;
- Final evaluation.

Potential problems and obstacles during ppp projects at local and regional levels: prevention methods and ways to resolve. The most serious obstacle to the implementation of the PPP projects is the general condition of the institutional environment in which a private partner has to implement the PPP project.

The most serious systemic problems are:

- Difficulty in obtaining permits and approvals necessary for the implementation of the PPP;
- Complexity of re-registration to a private partner of the right to use the land plot where the PPP facility is located;
- Insufficient professional training of officials dealing with PPP issues, low level of their motivation;
- The presence of corruption manifestations;
- The complexity of the practical implementation of the guarantees provided by the state partner for the purposes of the PPP project implementation, etc.

When applying the legislation on PPP, in practice there are a significant number of problem points. At the same time, it should be emphasized that most of these problems relate to projects implemented at the state level with the participation more than 80%. There are far fewer obstacles to the projects implemented at the local level with the participation of municipalities, since there is virtually no need to coordinate such

projects with other government agencies, which could potentially contribute to the development of PPPs in the regions.

Successful international and domestic experience on the projects implementation at the local level. The EU implements a large number of PPP projects every year. According to the European PPP Expertise Centre, in 2016 [10] almost 60 PPP projects with a total value of 12 billion Euro were implemented in the EU. Most PPP projects in the EU were implemented in the following areas: transport - 31%, medicine - 19%, education - 13%, telecommunications - 10%. The most successful PPP projects in foreign countries at the local level are water supply and sewage projects (Chile [11], Armenia [12]), solid waste management (Canada[13]), housing construction (Poland [14] and the UK [15]), street lighting (UK[]). In Ukraine, the most successful PPP projects are projects in the field of production and supply of thermal energy [10, 15, 16]

CONCLUSION

The conducted research shows the insufficient efficacy of the state regulation and protection to the aviation industry, as this market is unsteady and low competitive. As a result, for today the Ukrainian aviation market isn't fully ready for working under the "open sky" conditions and the adapted to the European standards regulatory legal acts don't take into account the market state of aviation services in Ukraine and the needs of national companies. With the aim of improving the mechanisms of the state regulation in certification, insurance, the state control and surveillance of the security of the civil aviation a range of regulatory affairs projects has been prepared, that will enable the improvement of technical conditions of aircrafts, airfields and airports, the customer service level of business entities of ground service companies at airports, the development of air connection in Ukraine and the increase of attractiveness of the air transportation market. All these markers are essential elements of the export potential of the industry, and their consideration should be of complex nature and enable the development in all areas of cooperation. The demands of integration into the world economic area dictate the necessity of union of the technical background and technologies, which are used on the market of air transportation. The majority of Ukrainian enterprises need time and the direct investment for meeting the requirements in line with European norms and standards. The conducted research shows the insufficient efficacy of the state regulation and protection to the aviation industry, as this market is unsteady and low competitive. As a result, for today the Ukrainian aviation market is not fully ready for working under the "open sky" conditions and the adapted to the European standards regulatory legal acts don't take into account the market state of aviation services in Ukraine and the needs of national companies. With the aim of improving the mechanisms of the state regulation in certification, insurance, the state control and surveillance of the security of the civil aviation a range of regulatory affairs projects has been prepared, that will enable the improvement of technical conditions of aircrafts, airfields and airports, the customer service level of business entities of ground service companies at airports, the development of air connection in Ukraine and the increase of attractiveness of the air transportation market. All these markers are essential elements of the export potential of the industry, and their consideration should be of complex nature and enable the development in all areas of cooperation. The demands of integration into the world economic area dictate the necessity of union of the technical background and technologies which are used on the market of air transportation. The majority of Ukrainian enterprises need time and the direct investment for meeting the requirements in line with European norms and standards. The formation of a favorable investment climate in Ukraine should be accompanied by simplification and ensuring of transparency and incentive possibilities of the national legislation, reduction of volumes of state interference in the economic relations of partners in the market, real fight against corruption. In view of certain imperfection of legislation and limited ability of the LEA/Municipalities to co-finance the PPP projects, a number of requirements should be met to ensure their success. In particular, potential projects must comply with the following criteria: - the project should have a positive socio-economic effect for the local community:

- a) Should reduce fiscal impact on the local budget;
- b) May involve insignificant co-financing from the Municipality. The project should have a commercial component and be attractive to potential investors.
- c) The project must have acceptable financial and financial performance figures (IRR, NPV);
- d) Private investor should be prepared to develop a feasibility study for the project;
- e) The project should be characterized by persistent demand for goods/works/services provided by a private partner;

f) The absence of significant barriers to the entry of a private partner on the market (no need to obtain a large number of licenses, permits);

g) The duration of project implementation should not exceed 2-3 years.

The source of return on investments made by the private partner should be the payment from the consumers/users of the services (an example can be a park maintained by a private partner, who receives profits from its visitors or small entrepreneurs renting space for shopping and entertainment facilities). A private partner may receive a fee from the Municipality, however, in this case, the latter must be a consumer of such services (payment for heating schools, hospitals, kindergartens); - the project should not involve large-scale construction works, requiring significant investments into related infrastructure (electricity supply lines, highways, other communications); - Municipality must be the manager / owner of the land plot where project is planned to be implemented, or the relevant land plot shall be in permanent use. Taking into account the analysis and in view of the above, the most attractive areas for the implementation of the PPP projects at the local level can be considered as:

- Production, transportation and supply of heat (including by the introduction of energy-efficient technologies);

- Tourism, recreation, culture and sports;

- Real estate management, communal property;

- Production, distribution and supply of electricity (especially solar power plants);

- Cars parking.

The successful international and domestic experience of using public-private partnerships is evidence that the PPP is an instrument of partnership, equal and mutually beneficial cooperation between the state and territorial communities in the person of the relevant state authorities or local self-government bodies and business, within the framework of which joint efforts are directed at the implementation of projects, which allow solving important socio-economic and other problems for the territorial community. The special interest of the regional and local authorities in the use and development of the PPP relates to the benefits of this mechanism for attracting resources (financial, investment, technological, and management), especially in the current context of significant discrepancy between development needs and available budgetary resources. A professional approach to the use of PPPs can ensure the use of internal development resources at the regional and local levels, which will have a positive impact on the implementation of the new state regional policy. The participation of a private investor can ensure more efficient use of the financial resources of the territorial community and involve the experience of a private partner for the effective implementation of PPP projects.

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