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## **Model of regional development on the basis of structural transformations**

*The research continues debates about finding a new model of regional development in Ukraine. Main principles of formation of a new model of regional development through structural transformations are presented. The paper concludes conclusions about erosion of the principles of solidarity and subsidiarity in regional policy; construction of a dual regional doctrine, based on the combined concepts of alignment of regional development and the development of «growth poles» is proposed; the necessity of reforming the political model as a requirement of effectiveness of regional development policy is proved. At the current stage of development of Ukraine a number of issues related to the formation of structural policies remains unresolved and disputed. Among them we can highlight algorithm of forming and implementation issues, the role of government in structural adaptations regulation, combination of stabilization measures and structural policies to enhance economic growth potential.*

*Keywords: principles, spatial economy, regional policy, structural policy, disparity of economy, economic growth.*

The necessity to improve regional development policy in Ukraine is cursed by the need to form a new growth model. Exhaustion of old model can be explained by reaching the level of increasing role of the state as a source of stability (especially in the form of budget revenues and expenditures rising), limits of access expansion of state, quasi-state and private companies to the international capital market, the exhaustion of the possibilities to support inefficient enterprises to avoid social destabilization etc. All facts mentioned above demonstrate the need for creation of a new model of regional development based on improving of the structure of regional socio-economic systems in different dimensions. This model should take into account the best examples of international experience in regional structural policy implementation due to the aim to achieve the most suitable results.

The relevance of scientific and practical development of issues about structural imbalances regulation in the economy of many regions of Ukraine is confirmed by numerous debates around them. A detailed study of various aspects of the subject is engaged in writings of known Ukrainian scientists, such as A. M. Alimov, Yu. S. Arkhangel'skyy, Yu. M. Bazhal, L. K. Bezchasnyy, P. P. Borschevskyy, A. S. Halchynskyy, V. M. Heyets, B. M. Danylyshyn, M. I. Dolishniy, S. I. Doroguntsov, P. S. Eshchenko, B. E. Kvasnyuk, V. E. Kolomoitsev, V. I. Kononenko, I. I. Lukinov, V. I. Lyashenko, A. F. Melnyk, I. R. Mykhasnyuk, L. H. Chernyuk, A. A. Chukhno, I. S. Yastrem'skyy and others.

Principles that are based on a new model of regional development regulation refers to fundamental elements. Let us observe them in details.

*The principle of solidarity* (provides assistance from richer regions to poorer). The implementation of this principle aims to achieve balanced socio-economic development of regions, overcoming the level of their difference in development, strengthening of internal cohesion of the country, increasing competitiveness through greater internal mobility factors and other benefits of sustainable development. The principle of solidarity in Ukraine is realized through the intergovernmental relations, it involves the concentration of income in the state budget and building a mechanism of transfers. Because of the imperfections of the modern model of intergovernmental relations in Ukraine balanced development is hardly reached benchmark, the extent of regional

disparities may persist or even grow, significantly weakened incentives are searching for internal reserves growth as a regional recipient and donor regions.

This model is beneficial to a greater extent Center and closely related members of regional elites. It tends to secrecy of information, under its conditions it is difficult to form a reasonable assessment of the effectiveness of the system of government. This model is not coherent to the system of democratic society because it hardly leaves space for political competition, appoints opinion about the effectiveness of management of the region by the central government, divests voters the right for essential information, it also weakens the concept of degree of competence and responsibility of the executive body.

Another model could be based on greater autonomy of regional budgets, but it should take into account the initial inequality and economic potential budget provision of regions need to settle the issue of financing regional areas which have the status of public authority. In this case, solidarity principle can be provided through the mechanisms of formation of target funds transfer with a clear definition of the goals of spending such funds, transparent procedures of regions receiving foreign aid, alignment of mechanisms of government fiscal responsibility of the regions. In general, this model is more attractive, transparent, contains fewer areas of corruption risk.

The principle of subsidiarity. It is supposed that control is reached at the lowest level, that means that authority is delegated to the management level at which it can be implemented most effectively.

The principle of subsidiarity develop the principle of federalism, its implementation leads to decentralization of power and control, determines the maximum of the interests of local communities. Development of institute of self-government is very essential for achieving the principle of subsidiarity.

The subsidiarity principle determines the need for empowerment of local communities and local levels of government. Here there are many problems associated with both the efficiency of public administration at some level, and preserving political unity of the country. Exceeding independence together with weakening of central power in Ukraine during deep economic and social crisis of the 1990s coursed many problems both economic and political. Further policy of building the vertical power helped to overcome these problems, but also gave birth to others – loss of effectiveness of regional management, excessive concentration of resources at the central level, the formation of purposeless paternalistic model of financing of regional development.

In the current model of public administration in Ukraine regional authorities have to act in a way, similar to country center, manipulate regional statistics, which is caused by the fact that regional policy instruments have total character and does not take into account specific features of development of each region in particular. In most cases regional authorities are passive, inert competent player in development issues, seeking to play along the center, hoping for transfers receiving and minimal outside interference into operation of the region.

In contrast to the Ukrainian experience in Europe regions are active agents of the European Union policy and have the right to act independently in most areas of life. We should note that European experience is partially implemented into Ukrainian practice, including the involvement of regions in international relations. Illustrative example of subsidiarity principle realization in regional policy of Ukraine and the EU is the creation of so-called Euro-regions – European cross-border cooperation communities in fields of economy, culture, education, transport, environment, which operation is based on the redistribution of power between the central government and those communities.

*The principle of local communities' interests consideration.* Effective regional policy includes a mandatory element of monitoring the state of local elites and interests of local communities, also inclusion of the interests of local communities into the process of developing and implementing strategic decisions in the region. Active promotion of the interests of local communities provides a basis for the successful implementation of investment support measures, improving the efficiency of infrastructure.

*The principle of coordination and synchronization among all levels of government and administration.* This principle involves the alignment of national priorities development, preparation of regional development strategies considering national priorities, development of strategies of individual communities, taking into account both nationwide priorities and strategic directions of development of regions. This principle also includes element of building strong horizontal – inter-regional and inter-municipal relations, cooperation patronage of development of regions and local areas.

Doctrine of regional development policy is formed under the influence of theoretical economic paradigms or strong political vector. Most often political doctrine is tried to be strengthened by economic, sometimes the reverse process occurs, but successful synthesis of politics and theory happens very rarely. Frequently, economic doctrines are formulated in way to emphasize the obvious problem and (or) denote the dominant way of it solving. Thus, the doctrine of alignment of regions focuses on their uneven development and differentiation of development.

*Doctrine of regions – «locomotives of growth»* pays attention on problem of creating conditions for the establishment of areas of competitive advantages, allowing to concentrate resources and ensure efficiency of economic activities in these areas. Is it justified to use monodoxy in Ukrainian realities of regional development?

*The doctrine of alignment of regional development level.* Removal of differentiation of regional development level, support for poor areas – one of the most common concepts of regional policy. It is based on a set of arguments that boil down to the fact that the multi-speed development of regions lead to fragmentation of the economic space, entails increased social inequality and, ultimately, inhibits growth.

In Ukraine doctrine of alignment was leading in regulating regional development over the past decades. But the government did not manage to reach the weakening trend of increasing differentiation of Ukrainian regions. In particular, during the last decade several occasions have happened:

- Strengthening of inter-regional asymmetries within the 2004-2013 in terms of measures: 1 GRP per person, average salary in the region, financial results of enterprises of the region and volume of industrial production in the region (per 1 employee) etc.
- Expansion of depressed area. Thus, in 2006 GRP per a person in 5 regions (Dnipropetrovsk, Donetsk, Zaporizhzhya, Kyiv and Poltava region) exceeded the national average, but already in 2013 such leaders remained 4 – Poltava region showed below-average result (Figure 1). The category of depressed regions according to the criteria average volume of GRP per person in 2013 includes Chernivtsi, Ternopil, Zakarpattya, Rivne, Kherson, Khmelnytsky regions (GRP per 1 person is less than 60% on average). Another 9 regions refers to the range of 60-75% comparing with the average Ukrainian level of this indicator per 1 person. Thus, the majority of Ukrainian regions (15 of 25) belongs to a group of backward regions (GRP per 1 person is less than 75% on average at the state level).

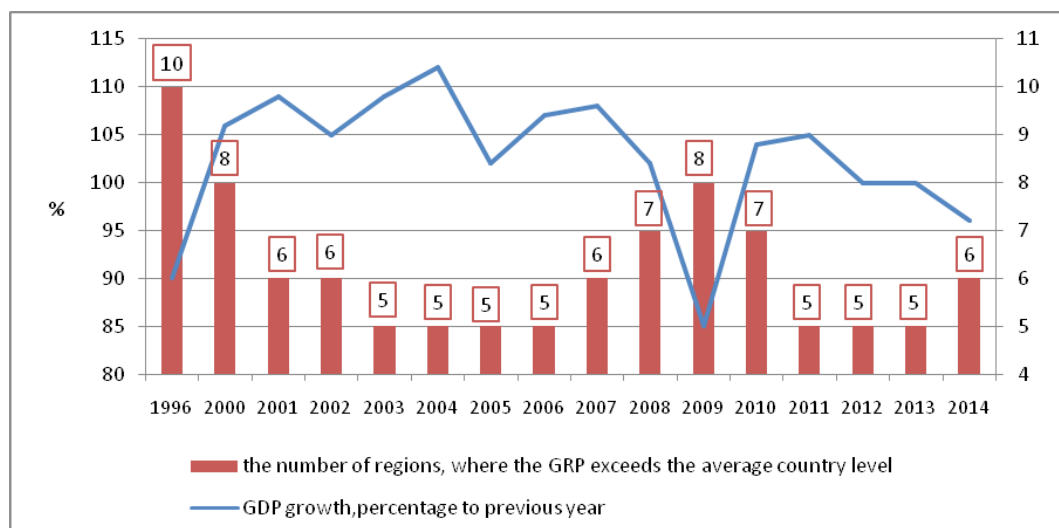


Fig. 1. Connection of annual GDP growth in Ukraine and the amount of regions with a gross value added per person, higher than the average value in Ukraine for 1996-2014 years. \*

\*Author's calculations based on data of the State Statistics Service of Ukraine

What caused failure of the cohesion policy? Stronger ones support weaker regions. This could have negative effects associated with the weakening of incentives to both categories of regions (weak ones lose incentive to make efforts to ensure their own development, as they are getting used to be supported by top, strong ones lose their incentives because they do not get the opportunity to influence on decisions about the usage of created additional revenue that is removed by the government). In addition, as a rule, weak regions are supported through a transfer channel, that besides all mentioned disadvantages causes only short-term positive effect on demand. The effectiveness of fiscal equalization in terms of long-term impact on economic growth is low.

In our point of view, cohesion policy should primarily be based on incentives to forming own regional development, creating long-term effects on the supply side. Effective elements of this policy may be measures that promote positive structural changes in regions that shift the profile of specialization toward a more competitive areas of economic activity, aimed at creating a flexible labor market and more. To align the policy of cohesion key priorities should be clearly defined. Well-chosen tools, established mechanisms of interaction between the center and regions, transparent procedure for receiving weak regions help from above, clear criteria for selecting projects and programs for inclusion in the list of programs funded from the center are also essential.

*The doctrine of «focused» development.* The doctrine is based on the fact that the country that during last 40 years was showing consistently high economic growth rates achieved this level while increasing their intra-regional differentiation – the highest growth was observed in some localized areas – metropolitan areas, conurbations, compact infrastructural saturated regions. Increasing of development rate of each region was caused by geographical, natural, historical, economic and institutional reasons that cause continuous heavy inflow factors and offer opportunities for innovation and growth of business activity. «Growth poles» include Lombardy, Paris region, province of Limburg and Liege in Belgium, Madrid and Barcelona metropolitan area, Kanto (includes seven prefectures, including Tokyo, Kanagawa, Gunma, Ibaraki),

Kinki (also includes seven prefectures, including Mie, Shiga, Kyoto, Osaka) and others. «Growth poles» get strong political support, that allows them to attract resources due to their competitive advantages. The policy assumes lightweight fiscal regime, stimulating activities are applied to their residents (tax incentives, decrease of administrative pressure on business, infrastructure investments, etc.).

Among the difficulties of implementing the doctrine of «focused» development, we should admit points, related to Ukraine. The growth of individual territory, located within the country, is facing serious constraints of the infrastructure connectivity factor. Sufficient infrastructure facilities should be established including regions that are not considered as developed ones. For example, we cannot fully use the resources of Logistic complex of trans-European corridors without increasing the capacity of border of western boundary infrastructure. The main task of government is to direct centralized resources into the region as well as creation of appropriate conditions for the inflow of private capital to expand infrastructural power if a region. Thus, the model of «growth poles» requires costs (investment, administrative) for implementation of variety of programs and projects, is connected with certain risks, associated with strategic choices errors, management mechanisms failures, etc.

In Ukraine, the doctrine has been recognized as the official after adoption of the Regional Development Strategy of Ukraine till 2020 [6]. The state did not reject implementation of measures to align regional differences in economic development. In our view, formation of stable trends in socio-economic development of Ukraine as a unitary state requires consistent implementation.

Observed doctrines does not exhaust possible or empirically detected cases. Thus, during the period of planned economy in the Soviet Union the concept of economic regionalization, based on the idea of regional specialization and on the mechanism of territorial and industrial complexes creating was developed. Another doctrine can be defined as spaces reformatting and sub-regions creation (macroregions), generating superadditive effect due to more complete markets connectivity, similarity of influence factors and others. Well-known doctrine of sustainable development supposes policy-making, focused on the problem of adverse human impact and determined environmental factors as key priorities. Finally, the doctrine of regional development policy is perspective, it can be built on the concept of social capital.

Current practice of regional policy implementation in Ukraine is not distinguished with consistency in defining and achieving its goals. It is characterized by usage of imperfect instruments, has other disadvantages. Conflict of goals of the government – to ensure the conditions for long-term growth (through structural reforms, opening of innovative capacity of economy, etc.) and narrow the gap of the level of regional development – can be an explanation. Is it possible to achieve them simultaneously?

Rejection of monodoctrines model and building of models of dual doctrines are justified for Ukraine. How monodoctrines are agreed? According to numerous empirical and theoretical researches, cities and metropolitan, areas identified as «growth poles» really are the driver of growth in the modern world. We should admit that the process, arising during the tightening resources to those centers, impact negatively on development of other areas. That can raise no problem for a number of countries with a particular spatial structure. But for Ukraine, with its excessive regional disparities – it can course serious threat that creates a number of problems, the most significant of which can be people absence at certain areas and their transformation into depressed ones. The

process is inevitable for a number of settlements. But it will never become total for economically weak regions. The migration outflow has its objective limits and they do not reach the level of full absence of inhabitants.

However, if development of agglomerations and «growth poles» is successful, it provides a basis to expand the process of reallocation of resources in the opposite direction – toward un-agglomerate areas. This turn-based strategy – first to get the maximum effect from the concentration of resources in metropolitan areas, and then deploy created resources (albeit mostly physical) toward other areas, forming there high-quality infrastructure, raising living conditions, creating conditions for demographic renewal, – is very attractive for Ukraine. Its practical implementation requires a serious long-term strategic planning, continuity of policy, a number of other conditions.

However, among the areas of reforms aimed at launching a new model of growth in Ukraine, high importance has a component of the reform of the political system and public administration, search for a model that can restore confidence in political institutions, strengthen the credibility of civil society and local authorities, which will conduct more effective policy of regional development.

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### **Прокопюк А. Модель регіонального розвитку на засадах структурних трансформацій**

*Досліджено наукові підходи щодо формування нової моделі регіонального розвитку в Україні. Представлено принципи формування нової моделі регіонального розвитку на основі структурних трансформацій. Зроблено висновок про розмивання принципів солідарності та субсидіарності в регіональній політиці; пропонується побудова двоїстої регіональної доктрини, заснованої на поєднанні концепцій вирівнювання розвитку регіонів і розвитку «полісів зростання»; обґрунтовується необхідність реформування політичної моделі як умови ефективності політики регіонального розвитку. Доведено, що на сучасному етапі розвитку економіки України залишається нерозв'язаною та дискусійною ціла низка питань, пов'язаних з формуванням структурної політики. Серед таких питань: алгоритм формування та проблеми реалізації, роль держави у регулюванні структурних адаптацій, поєднання стабілізаційних заходів і структурної політики для підвищення потенціалу економічного зростання.*

*Наголошено, що сучасна практика реалізації регіональної політики в Україні не вирізняється послідовністю у визначенні та досягненні своїх цілей, характеризується недосконалістю застосування інструментів, має інші недоліки. Одним з їх пояснень є конфлікт цілей, які ставляться перед урядом – забезпечити умови довгострокового зростання (через структурні реформи, розкриття інноваційного потенціалу економіки тощо) і скоротити розрив між рівнями розвитку регіонів.*

*Встановлено, що для України цілком виправданою є відмова від моделі монодоктрин і вибудовування моделі двоїстої доктрини. Натомість перспективною для реалізації в умовах України є покрокова стратегія – спочатку отримати максимальний ефект від зосередження ресурсів у агломераціях, а потім створені ресурси (нехай, переважно, матеріальні) розвернути у бік інших територій, сформувавши в них якісну інфраструктуру, підвищивши умови життя, створивши умови для демографічного відновлення. Її практична реалізація вимагає серйозного довгострокового стратегічного планування, наступності політики, низки інших умов. Серед першочергових напрямів реформ, орієнтованих на запуск нової моделі зростання в Україні, високі значення мають реформи політичної системи та системи державного управління, пошук моделі, що дозволяє відновити довіру до політичних інститутів, зміцнити авторитет інститутів громадянського суспільства та місцевого самоврядування, що дозволить проводити ефективнішу політику розвитку регіонів.*

*Ключові слова: принципи, просторова економіка, регіональна політика, структурна політика, диспропорційність економіки, економічне зростання.*

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