

# New Regional Structural Policy of Ukraine in Terms of EU Integration

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## Abstract

*The EU regional policy mechanisms and one of its components — regional structural policy implementation in Ukraine, based on the theory of modernization — are the subject of different scientific discussions. Using comparative analysis, conditions and factors which determine structural policies of the EU and Ukraine, were outlined. Certain risks (geo-economic, economic, energy, demographic) which are related to the structural deformation and can negatively affect Ukraine integration in the EU were identified. Mechanisms for regional structural policy were estimated and problems of their modernization in Ukraine were determined. The conclusion about the necessity of radical institutional solutions in Ukraine, including the development of selective programs of structural adjustment for regional economies was made in the article.*

**Keywords:** structural policy, EU regional policy, mechanisms of structural policy

## Introduction

Enlargement of the European Union, Ukraine's accession to the WTO, the global economic crisis and other processes of globalization have made a significant impact on the socio-economic development of Ukraine regions. Overall, external challenges and internal problems cause a sharp differentiation in Ukrainian regions. One of the internal factors is deepening of structural deformations in regional economies. Main reasons for that to happen are the following: lack of action towards structural transformation of the national economy, poor choice of priorities in methodological framework of economy structural adjustment both on state and regional levels, inadequacy of existing mechanisms of structural policy. Although different mechanisms of structural adjustment depending on the specifics of national economies were used by governments in Western Europe and CEE countries (second wave of integration) and they gave a methodological and practical basis for the modernization of regional structural policy mechanisms in Ukraine. Methodological basis of the research are institutional model by North (year 2000) and scientific researches presented by Puchala (year 1993), A. Andersson and D. Andersson (year 2000), Jones (year 2001), Bal-Vozhnyak (year 2007), Gladiy (year 2008), Mikula (year 2014), Lukyanenko (year 2007), Pappa (year 2008) and others. The core research lies in hypothesis about expansion of opportunities to increase the competitiveness of regions based on their economies development and those challenges caused by national economic system and modern processes in world economy. Based on the theory of modernization, we are interested in answering the question of its implementation in Ukraine, taking into account national identity, mechanisms of EU regional policy and one of its components — regional structural policy.

## 1 Background and factors specifying regional structural policies of the EU and Ukraine

According to North, “for the successful implementation of reforms the change of institutional system is required” (North 1990). This determines the expediency of the regional structural policy

formation aimed at the institutional framework for constructing regional economy transformation in the process of the national regional policy implementation. In general, regional structural policy of any country is determined by the following conditions: regions economic potential; level of regional balance; regions geopolitical and geo-economic position; internal and external factors which influence on trend transformation of the economic structure in regions; challenges caused by globalization and regionalization; institutional framework for regional economy restructuring (Kowalski 2008).

The European Union as well as the European market are both examples of regionally centralized development model which made couple of mega-regional contradictions (Lukyanenko and Chuzhikov 2007, 32). Main factors which determine regional balance (or imbalance) in the EU and its countries are: regionalization features of modern global market, increasing complexity of the relationship “globalism-regionalism,” developing a new model of spatial architectonics of the world market, functional regionalization of modern European Economic Area. In fact, in the EU there are three types of regional economic systems:

- formal, unified
- functional (concentrated around local center — large company, shopping center, research center)
- perceptual (determined by the attitude of people to the territories)

There are four multipurpose centers in Europe which economies are characterized by diversified structure: “Greater London,” “Amsterdam-Rotterdam,” “Grand Frankfurt with surrounding territories of Rhein,” “Great Milan” (Gladiy 2006, 320).

The national economy structure and regions structural policies are affected by such contradictions of economic globalization as following: unevenness, asynchronism, disproportion. Eurocentrism as modern integration process has inherited almost all development asymmetries, which spread in terms of enlargement of the European Union (Lukyanenko and Chuzhikov 2007, 32; Maciaszczyk 2004). Also specifics of the EU structural regional policy and choices of its implementation mechanisms are affected by the chosen model of regional development: a functional model of regional development (Sweden, Ireland, Norway, Finland, Netherlands); national planning system with structured operating plans; formation of regional development strategies; model of regional approach to economic development (Slovakia); focus on financial instruments (structural and other funds). Special financial institutions such as Structural Funds and Joint Structural Funds were created in the EU. Before accession Central and Eastern Europe were provided with the funding due to the programs of PHARE and Interreg II (Helbig and Magryś 2007).

Regional policy is crucial for the economy restructuring to promote socio-economic convergence of countries and regions, leveling territorial disparities by supporting uncompetitive regions. Among the priorities of economy restructuring are: promotion of structural reconstruction and development of depressed regions (GDP per capita in recent years < 75% average — Greece, Ireland, East Germany and Central and East European regions etc.), financial assistance to regions where there is industry stagnation, long-term unemployment; support for employment initiatives; financing of agricultural areas and acceleration of its restructuring; assistance for sparsely populated regions where population density is less than 8 people per m<sup>2</sup> (Sweden, Finland); reduce the differentiation in levels of economic development for new EU member-states. In 2007–2013 the EU budget for regional policy was EUR 348 billion, including EUR 278 billion for structural funds and EUR 70 billion for the Cohesion Fund. However, the researchers point out lack of flexibility of these financial institutions. Current developed mechanisms of the EU regional policy funding are TACIS 1996–2006 EU — EUR 2,4 billion,<sup>1</sup> SHS — EUR 90 million, ENPI 2007–2010 — EUR 295 million, 2010–2013 Eastern Partnership — EUR 600 million (Mikula and Tolkovnov 2010, 8). There is also an effect in structural adjustment of European regional economies which has been provided by cross-border cooperation, including development of European regions. Countries such as Poland, Czech Republic, Hungary, unlike Ukraine, had direct borders with the EU since the 1970s and received a significant amount of foreign direct investment and funds for cross-border cooperation.

1. [In the journal European practice of number notation is followed — for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style). — Ed.]

Main challenges which exacerbate the problem of Ukrainian economy structural adjustment are such as: increasing competition to have access to all resources, especially energy; Ukraine is behind other European countries in terms of standard of living, investment attractiveness, development of innovative environment; growth disparities between regions; creation of potential tension on the Ukrainian border with neighboring states by forming centers for economic growth which leads to outflow of labor, intellectual and other resources of regions borders; asymmetric regional growth. According to different economists, Ukraine is typically a „border country” which reforms lag behind neighboring Poland for around 7–8 years (Lukyanenko and Chuzhikov 2007, 87). Based on the indicator of gross regional product, we can state its differentiation by Ukraine regions. In 2013 the difference in maximum and minimum levels was 13,3 times (in Donetsk region—UAH 117,646 billion and in Chernivtsi region—UAH 8,833 billion) (Osaulenko 2014). Considerable interregional differentiation is illustrated by the gross regional product per capita.

The level of structural imbalances in regional economies is indicated by the mismatch in structural contribution of regions in socio-economic development of Ukraine including natural-material part of their economic potential; certain mono-functionality of regional economies; technological conservatism and asymmetry of technological development; uneven concentration of labor potential etc. Post-transformational stage of regions development is characterized by the deepening of the structural deformations in their economy. Characteristic features of this trend are: uneven spatial concentration of business; growth of entrepreneurship in the “center” caused by expenses for periphery; deepening of imbalances between labor supply and demand; deepening of the reproductive proportions; deformation, absence of significant changes in the development of depressed regions. Industrial and technological potentials are most powerful in the Kyiv, Donetsk, Kharkiv, Dnipropetrovsk, Zaporizhzhya and Lviv regions. The share of three regions with the highest rating of socio-economic development (Kyiv, Donetsk, Dnipropetrovsk) is more than 42% of total gross regional product. Low-technology industries (share in the structure is 49%–53%) are concentrated in Donetsk, Luhansk, Zaporizhzhya, Lviv; medium-low-technologies (40%) are almost in all regions (except Zhytomyr, Zakarpattya, Ivano-Frankivsk, Kherson, Chernivtsi, Chernihiv); medium-tech (6%–8%)—Kyiv, Kharkiv, Lviv; hi-tech (1%–3%)—Kyiv, Kharkiv, Lviv. There are also other regional imbalances.

Institutional preconditions and factors of Ukrainian structural regional policy are as follows: formation of Ukraine structural regional policy was affected by the European factors, for example, implementation process of European regionalization; formation and implementation of communitarian EU regional policy aimed at supporting of the depressed old industrial regions and restructuring in terms of the Maastricht Treaty; strengthening of regional economic governance and regionalization of responsibilities for local authorities (under the European Charter of Local Self-Government); EU enlargement by new countries of Central and Eastern Europe; intensification of interregional and border cooperation.

Having researched regional imbalances and having evaluated Ukraine place in mega-regional economic environment, the risks that may negatively affect its EU integration have been determined: geo-economic risks caused by polarization of economic growth (western and eastern borders of Ukraine), which can result in bipolar environment that in the best scenario will provide a synergistic effect of economic cooperation between East and West as advantage and it will put the country in a competitive geopolitical struggle as advantage (Lukyanenko and Chuzhikov 2007, 87); economic risks, which are known today and show existing problem of choosing alternatives—open competition for Ukrainian goods and services on the European market or their accumulation on CIS markets; energy risks which deal with the necessity to review branch structure of regional economies and stimulate the development of energy sector; demographic risks caused by the outflow of labor from periphery regions to center, intensification of legal and illegal migration.

## 2 Mechanisms of regional structural policy and ways of their modernization in Ukraine

Framework conditions which provide structural changes in regions, are identified in the mechanisms of EU regional policy: targeted support of structural funds; provision of financial resources and financial assistance; promotion of enterprise restructuring, innovation development; providing investment bonuses for the construction of facilities that improve economic structure: provision of favorable loans for investment, guarantees on loans; programs of development at national, regional and local levels; introduction of common social standards; government guarantees for the loans of commercial banks; promotion for location of new businesses in overpopulated cities and regions. Most of the mechanisms are used in structuring regional economy of Ukraine. Some of them are identified as directions of modernization in the State Regional Development Strategy till 2020: strategic programming and regional development planning; implementation agreements between government and local authorities; implementation of concentration and optimization mechanism of public resources; optimization of special economic zones and priority development territories; regional infrastructure development; strengthening the role of local authorities to create a favorable investment climate; improvement of distribution method from state budget; financing of priority measures of state target programs. A set of measures identified to stimulate depressed areas.

The analysis made possible to identify the following disadvantages and problems in applying the mechanisms of regional structural policy in Ukraine.

- Mechanism of choosing priorities. The State Strategy for Regional Development has institutionalized priorities of state regional policy for individual regions, the mechanisms of financial support till 2020. Lack of tendencies in reducing regional disparities caused by the imperfect methods of identifying priorities. There are two approaches to this: the first — eliminating of disparities is carried out through government support and subsidies of various industries in depressed regions; second (modernized) — effective use of regional potential, self-determination of their priorities in the context of their business opportunities and cooperation with other regions (Marku and Khildrit 2009). Ukraine tends to choose the first option as the agreement on regional development is signed between the Government and local authorities in accordance with national development priorities of the regions.
- Financial mechanisms of regional structural changes, in fact, are not developed in Ukraine. There are such funding instruments in the EU: investment bonuses and transfers to municipalities; companies grants for initial investment; loans to municipalities for co-funding the development of economic infrastructure; loans and guarantees to companies engaged in agricultural business; investment in specific projects of regional significance; capital transfers to municipalities for the purpose to invest in regional development projects. Undeveloped regional financial mechanisms of structural changes in Ukraine are caused by weaknesses (low percentage) in development in expenditure portion of local budgets, insufficient banking systems focusing on lending economy, imperfect mechanisms of communal property.
- Strategy mechanism. Despite of regional development strategies, which exist in Ukraine, most of them are not included into the package of programs for economic restructuring. It is caused by the lack of current program of economic restructuring in Ukraine, some care on choosing a “breakout strategy.” This situation creates an environment of conservation of technological, reproduction, branch imbalances in the regions.
- Mechanisms for innovation in structural policy areas. European innovative tools aimed on the improvement of alignment of some EU economies, are depicted on the Europe Innovation Scoreboard. Based on the methodology of creating EIS, there are 5 types of these mechanisms: educational, financial, motivational, commercial and institutional. Educational mechanisms aim at creation of human capital; financial mechanisms aim at creation of financial knowledge, develop an economy based on knowledge; motivational aim at stimulating innovations in the form of technological, organizational, managerial innovation; economic aim at the development of industries and services that require medium and high technological development; institutional are mainly related to intellectual property protection. Synthetic indicator of innovation in the

EU—25 is 0,42, leader-country is Sweden (0,72), Poland rate is 0,23. Ukraine does not make these assessments by region. This is due to the lack of adequate statistical base and lack of decisive steps to innovational model of development. In this relation the raw vector of development existing in most regions remains as the main one.

- The mechanism of investment reorientation in priority branches of economy. It is the most common in regional structural policy and provides simulative investment in priority economic activities, improving the investment climate in regions. Despite of the fact that this mechanism has been founded in Ukraine, investments, including foreign ones, are concentrated in areas with rapid turnover of capital (financial sector, trade, real estate) and economically powerful regions due to the concentration in their competitive industries and their infrastructure comfort.
- The mechanism of inter-regional cooperation including trans-regional cooperation. 19 out of 25 Ukrainian regions are the bordering ones. EU experience confirmed the effectiveness of euro regions to improve the structuring of regional economies, which are included there. There are 7 Euro-regions in Ukraine: “Bug,” “Carpathian Euro-region,” “Lower Danube,” “Upper Prut,” “Dnipro,” “Sloboda,” “Yaroslavna” and Black Sea region initiated by the Council of Europe (Mikula and Tolkovanov 2010, 9). Mechanism which has a positive impact on structural changes in areas included in the Euro-regions was initiated and is connected with the financial support for projects and cross-border cooperation, formation and development of cross-border clusters. Despite of the fact that 4 Euro-regions include regions of European countries, EU member-states, remains asymmetry of Ukrainian and Polish regions in particular, the effectiveness of participation in these regional organizations is insufficient to improve the structure of the regional economy. At the same time boosting economic cooperation at the borders and in the Euro-regions should be seen as branch integration of Ukraine into the EU.

## Conclusions

Improvement of regional economic structure in Ukraine is impossible without radical institutional decisions. Taking into account that restructuring is not possible in the short-term period, it should be considered as part of national and regional development strategies and must be based on poly-criterial approach. Within the development strategies of some regions, there should be developed some selective programs of structural adjustment of the economy. Flexible use of European structural policy regional mechanisms is possible only within decentralization of management which is possible only with implementation of the administrative-territorial reform.

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