

**Transformation of  
international economic  
relations: modern  
challenges, risks,  
opportunities and prospects**

**Collective monograph edited by  
M. Bezpartochnyi**

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**Starptautisko ekonomisko  
attiecību transformācija:  
mūsdienu problēmas, riski,  
iespējas un perspektīvas**

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The authors of the book have come to the conclusion that it is necessary to effectively use the determinants of regional development and ensure the international competitiveness of regions, methodological approaches to the provision of economic security, logistical approaches to the formation and implementation of business strategies. Basic research is aimed at studying the problem of European integration and association with the European Union, social and humanitarian potential, agricultural production sector, social mobility and social security of certain categories citizens of the country. The research results have been implemented in the different models of managing the development of international business, managing banking risks, the formation of mechanisms for structural adjustment of the economy and its sustainable development, complementary to the form of diplomacy. The results of the study can be used in decision-making at the level of international business, ministries and departments that regulate international relations, ensuring security and overcoming risks. The results can also be used by students and young scientists in modern concepts of the formation of international economic relations in the context of strengthening European integration processes and globalization of the economy.

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## INTRODUCTION

International economic relations in modern times are a powerful means of accelerating scientific and technological progress, intensifying the global economy and the main factor in the development of individual local economies. International economic relations are a system of economic relations between different states on the basis of the international division of labor, productive forces, production, exchange and consumption on an international scale. This allows you to attract the best experience of farming, the latest technical and technological developments, to determine new socio-economic and environmental standards. This topic is especially relevant at the present stage of development of integration processes and the society's comprehension of universal unity in all spheres of life. Topical issues of the development of individual countries in the common integrated economic space, local and integral responsibility to future generations in determining the integration vector, or determining the need for disintegration routes. In this context, the urgency of developing the theoretical and methodological aspects of the formation of the organizational and economic foundations for the entry of individual countries into the world economy on the principles of equality and mutual advantage of cooperation is growing, and development on the basis of scientific research of practical recommendations for the development of national economic complexes, regions.

The purpose of writing this collective monograph is the formation of theoretical and methodological foundations and practical recommendations for the development of international economic relations.

The object of the authors' research was the economic nature of the world's changes, the features and trends in the development of international economic relations, the generalization of world experience in the sphere of the development of international economic relations and their role in the economies of individual states, forms of interaction in world markets.

The subject of the study was various aspects of international relations; features, problems and prospects of European integration; the impact of international trends on the economies of countries; determination of directions for increasing international competitiveness, formation of a theoretical and methodological basis for making practical decisions in determining the external economic development strategy.

## Chapter 1

# INTERNATIONAL ECONOMIC RELATIONS IN THE SYSTEM OF GLOBALIZATION OF WORLD ECONOMIC TIES

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## SOCIAL MOBILITY AND SOCIAL RESPONSIBILITY UNDER GLOBAL CHALLENGES

Globalization of social life involves the mobility of commodity, financial and human flows and, in turn, is a consequence of that mobility. Migration issues are considered by many social scientists and economists, but, under globalization, cross-border movement of human resources acquires specific nature and particular emotional flavor. Increasing possibilities of cross-border movement for individuals is combined with the weakening of the social position of national states as a result of the transformation of their subjects into “global citizens of the world.” In sociological essays, human as a global entity (*Homo globalis*) is represented by a gallery of images, such as digital human (*Homo digitalis*), consuming human (*Homo consumens*), mobile human (*Homo mobilis*), etc. [1].

Thus, mobile person, according to experts, now represents a new type of modal personality – a kind of “urban nomad”. Although such humans are usually solitary pilgrims, separated from family and tribal roots, or even as uncompromising “kvirdo-loners” who travel the world in search of perfect love, but they may also be happy couples having the opportunity to travel together, explore the world and enjoy life. One type of mobile person is global poor, a representative of “transnational precariate,” as economic globalization leads to the emergence of the



global labor market and intensifying production through modern technology promotes the release of considerable human resources.

People deprived of the access to the labor market, become “the global poor” having their own life subculture. According to official figures, around 1.2 billion people today are leading a destitute life on incomes below \$1 a day. Global poverty causes lumpenization and criminalization of social life, and one way of access to the benefits of global civilization for the “superfluous people” is their geographic mobility as they, constituting part of the low-skilled work force, move from depressed regions to economically attractive ones. Superfluous people form a lively component of a new social class that is the officially “invisible” and therefore, socially disadvantaged global precariate [1, p. 169].

A separate group of the modern mobile humans are the global old. Reduced birth rate and increased life expectancy resulted in that older people now longer remain healthy, socially active and geographically mobile. They travel increasingly longer trying to realize themselves both professionally and in family, personal, cultural, educational and other spheres of life. On the one hand, these processes contribute to the quality of the human capital of the elderly people, and on the other – they lead to the “deportation of the old” from the centers of global techno sphere to the periphery, to the countries where aging is cheaper and more comfortable.

Woman, particularly woman-mother, becomes another recognizable global migrant. Globalization causes the feminization of poverty, forcing women living in the “periphery” to seek work abroad. Today, women are the most mobile than ever before in history. As independent workforce medium, they can move long distances and often attract to global migrations their men and children. A female migrant (global Cinderella), who crosses national borders in search of a better life and global mothers who serve other people’s children and elderly in order to feed their owns – these are forms of global feminization. But there are other circumstances for female migration. According to the UN, the proportion of women in the total number of migrants is 48%; it is the same in the refugees. Women make up 70% of displaced persons due to armed conflict and about 80% of those due to human trafficking.

Among paradoxical signs of global motherhood, according to experts, are the following:

- outsourcing and transfer of the function of maternal love and care from family to market, making them an object of sale;

- challenging the traditional view of the role and mission of the male breadwinner in the family;
- instability of the entrenched ideas of the female family homemaker in favor of global (cross-border) female custodian and mother [1, p. 170-171].

Besides, the phenomenon of global motherhood is combined with the emergence, in the twenty-first century, of a new social category of “normative global child”, whose legitimacy is established in the UN Convention on the Rights of the Child. This phenomenon is due to the global spread of the following tendencies:

- global adoption industry,
- trafficking in human "material"
- armed conflicts and children’s participation in them,
- criminal business
- child vagrancy, begging, and others.

These phenomena are collectively defined as “civil war against children.” New “Little Muks”, often on their own and without proper support, cross countries and continents. In addition, children, together with women, form a group of people who are forcibly moved during military and civil conflicts. Black boy soldier and Asian housekeepergirl are reproachful portraits of normative global children [1, p. 171].

Global socio-economic distance is easily overcome by using new information and communication technologies that create the effect of compression of space-time. Today, humans do not have to cross physical boundaries to join the global life. Switching TV channels and the Internet when traveling, a person acquires the features of a digital nomad (Homo digitalis), a life-long guest of virtual spaces.

In the process, informational and communicational technologies create a paradox of “constantly expanding series of concentric circles of compassion” when the feelings of community and commitment that are most strongly manifested in the close circle of communication (family, friends, neighbors) do not diminish with the growth of geographical distance, as it happens under traditional conditions. Under the conditions of “global village”, such feelings intensify as a result of the conversion of distant circles into nearby ones. The situation could develop in different directions and have dual (paradoxical) results:

1) Marriage and family ties do not just weaken, but radically transform, turning into a virtual metaphor. There are new family configurations – without intimate relationships and permanent partner, without children and common home, and even without the “biological”

body.

2) Marriage and family bonds are strengthened. Internet and information technologies provide great opportunities for different types of distance learning, work, and spiritual leisure; as a result a person is able to successfully combine work and family, professional autonomy and a mobile and flexible style of private life [1, p. 172].

It is believed that the process of consumption, and consumer standards of comfort emotional life form one of the centers of social and economic globalization. Consequently, the main indicator of a society's well-being is economic growth, and, in social relations, a so-called "dinosaur effect" is spreading, which is characteristic of the psychology of consumerism, and which is formulated in the following way: humanity eats very much and quickly, thinks little, and slowly reacts to external challenges. Now the global market fully satisfies, along with the traditional human demands, also the so-called creative demands, including the most sophisticated and exotic ones. However, the encouragement of consumer sentiment brings about social marginalization, fragmentation of human consciousness and even cultural alienation.

The uni-dimensional "consuming man" (Homo consumers) represents a "doubly devastated" human as compared to the traditional market actor, which gives grounds to characterize the modern economic individual as Homo mechanicus [1, p. 174].

It should be noted that the above model of global human in its pure form does not exist: in reality such models overlap, and diffuse into one another. Modal images of the actors of global relations are advisable to consider when working out models and general guidelines of national economic development with corresponding programs of social responsibility. The development of such programs involves a preliminary theoretical justification of the principles of social responsibility.

Thus, market transformation of the national economic system of Ukraine in the context of European integration involves establishing a set of institutions relevant to modern requirements and achieving certain social and economic standards. One of the most important international initiatives in the field of harmonization of the functioning of modern civil society is the concept of social responsibility.

The said concept in the form of a strategic project of the global community of late XX – early XXI centuries is being implemented mainly through the development of national and international standards

of conduct and accountability of businesses entities. In Ukraine, various aspects of social responsibility of business entities have been studied in the works of D.Bayura, P.Buryak, E.Grishnova A.Kolot, P.Lukin, I.Malik, S.Melnyk, M.Murashko, N.Suprun, Y.Umantsiv, G.Cherednichenko and other authors. However, basic research on the above mentioned problems only begin to develop.

Their urgency stems from the fact that the adaptation of the institution of social responsibility of an organization to the realities of modern market environment in Ukraine could be a prerequisite for effective restoration of trust between the entities of all levels of management. Clarifying the sources of the idea of social responsibility of an organization, and its institutional content is a relevant for the economic science under the conditions of global challenges.

The concept of “social responsibility of an organization” in today’s economic and legal vocabulary is identified mainly with the social responsibility of business. However, in the broadest sense, the notion of “organization” reflects the dynamic patterns of functioning, behavior, interaction of the elements of biological, social, and technical entities and correlates with the concepts of structure, system, and management. Indeed, organization (French *organisation* from Latin *organizo* – “cause orderly appearance”, “arrange”) represents:

first, orderliness, interaction between differentiated and autonomous parts of the whole;

second, a set of processes (actions) that coordinate parts of the whole;

and third, association of economic agents, which together implement a program (goal) on the basis of established rules and procedures.

In Ukrainian political and economic tradition, organization has been treated primarily as organization of production, i.e. form and way of the connection material and the personal elements of the production process in the context of ensuring the production of high quality items, improving productivity, and resource efficiency. Organizational-economic structure of the productive forces, covering the social division of labor, specialization, cooperation, and combination of resources, reflects the "macroeconomic" vision of the processes of national production in an industrialized society.

During the market oriented reform of the economic complex, the problem of organizational arrangement and behavior of microeconomic agents has become urgent. It was an object of active investigation by the representatives of neoclassical direction in economic science; however,

in the tradition of this approach, firms and households (as well as the state) were positioned mainly as monolithic entities-actors of market interactions. In addition, in the 1980 – 1990s, the industrialized countries, in the course of information and technological revolutions, underwent a significant transformation in all spheres of public life, which raised the importance of the “institutional view of the world.” This “view” focused on the organizational structures of economic agents.

Despite the fact that the concept of “institution” is widely used in the scientific and business vocabulary, in the interpretation of its contents still remain significant differences. According to experts, the main divide is between understanding institutions as stable rules and regulations governing the behavior of people and their associations, and as organizations, which include firms, households, government, parties, trade unions, etc. In fact, the two approaches are not contradictory, as one might expect, but complementary. This view is reflected in modern literature. In particular, Yu.Olsevych and V.Mazarchuk [2, p.51] write that “rules and regulations can be regarded as mere institutions as compared to organizations, which are sophisticated institutions”. Thus, organizations as economic agents are based on a complex system of rules and regulations.

Until recently, the category of “social organization” has been most actively used in social science and in the system of management. One kind of social organization is a labor organization. In sociology, the social organization of labor is usually identified with the help of labor functions it performs, its social base (which is the labor collective), and organizational forms (enterprises and institutions). The focus of the analysis of labor organization is placed on such aspects of its effective social functioning as cohesion, stability, labor and social activities, disciplined interaction of the workers and others. But these aspects only one-sidedly reflect the contents of a labor organization as an enterprise or institution without revealing the essence of its economic nature.

Neoclassical economic theory has quite fully investigated the content and functions of company (enterprise) as an agent of economic relations, but it overlooked the social component of that agent. It was only in the second half of the twentieth century that the institutional school “expanded” the limits of firm as an object-point in the market space, which had been formed due to the efforts of the neoclassical approach, and conceived the concept of firm as:

a planning system organized by the technocracy (J.Galbraith)

organizational system of contractual relations (O. Williamson)  
organization that minimizes transaction costs (R. Coase)  
organization as a focus of socio-economic information (C. Menard)  
and more.

And in this way, the institutional approach has united previously disparate social and economic aspects of company, and transformed it into a socio-economic organization. Similar modifications were applied to other market actors, such as households and the state. Thus, the economic world in the context of its institutional interpretation represents a multi-dimensional space filled with socio-economic organizations of varying difficulty. Ideally, each such organization is a society in miniature; it has clear boundaries, is characterized by social stratification, is the bearer of a range of social roles and statuses, differs from others by performed socio-economic functions, is supported by its own authority and creates a system of social and economic relations both between its internal actors and in its environment.

Since the firm, with all variety of its legal forms, remains a primary system-creating link of the modern market economy, it is exactly it that initiates the implementation of the concept of social responsibility of an organization. The most common legal form of business activity is now corporation, which is why the initiative of social responsibility of an organization is mainly implemented in the form of corporate social responsibility of the corporations (corporate social responsibility, CSR), which, in view of the public interest, assume responsibility for their performance in relation to customers, partners, their employees and shareholders, local residents, and society as a whole. The concept of social responsibility can be applied, however, to any private business, and, in a broader context, to the activities of any market institution (as a complex socio-economic organizations), including non-profit organizations providing non-profit services and administrative authorities [3, p.78].

Advisory group of experts at the International Organization for Standardization defines the strategy of social responsibility as “a balanced approach in which organizations solve economic, environmental and social issues so as to benefit the people, residents of local communities and society as a whole” [4, p.27 ]. At the same time the object of social responsibility is a stakeholder – “interested party” – a person or group of persons having certain interest in the actions of the organization. Typically, the targets of socio-oriented business include the company’s employees, consumers of the company’s products and

services, representatives of related organizations, residents of surrounding areas, citizens in need of special attention from the society and other actors.

According to the experts, the concept of corporate social responsibility goes beyond the organization's obligations to comply, in its activities, with the national legislation, but includes the firm's voluntary action to improve the quality of life of its employees and their families, as well as residents of the local area and society in general. There are enough examples of voluntary assumption, by well-known companies, of the burden of social responsibility, which "burden" turned into their unconditional competitive advantage due to reduced number of lawsuits and proceedings, strengthened image of the brand, reduced staff turnover, higher loyalty of the employees, expanded outlets, and increased number of investors and partners.

However, in the early twenty-first century, in the relations between market actors in the implementation of corporate social responsibility, certain contradictory trends have emerged. It turned out that, in society, the issue of social responsibility is differently perceived by the state, citizens, and corporations themselves. A number of high-profile corporate scandals of the late twentieth and beginning of twenty-first centuries greatly weakened the trustful relations in the society. One response to the global trend of financial and economic destabilization became the increasing pressure on corporations in developed countries to improve their social responsibility through new public initiatives, laws and regulations (Standards SA – 800, ISO – 2600 and others).

In the context of international experience, major areas of adaptation of socially responsible organizations to socio-economic conditions of modern Ukraine could be measures to ensure the security of property rights and conditions for safe business, strengthening the foundations of an independent judiciary, legal promotion of transparent conditions for social activities, identification of strategic and tactical priorities of social responsibility of the organizations, and implementation of company standards of social reporting adopted in European countries.

From the general methodological point view, of great interest is the rate of voluntariness in the business decisions to assume the burden of social and environmental responsibility. Why do corporations "dress up" in a kind of code of honor? – In global terms, the question remains open. It is well known that, in a market economy, the prevailing principle is the freedom of economic choice that arises from private ownership on resources and maximization of benefits (profits).

Then what motivates the businessmen whose behavior seems contrary to the basic laws of the market (capitalism)? According to experts, there are two possible explanations of the paradox: from the standpoint of selfishness and altruism. Thus, P. Drucker finds the origins of social responsibility in the early nineteenth century in the work of two prominent American businessmen – E. Carnegie and J. Rosenwald [5]. E. Carnegie, as a benefactor, was at the forefront of such a social institution as a charitable foundation. His example was followed by other American businessmen (L. Stanford, G. Huntington, J. Morgan, G. Frick, E. Mellon, the Rockefellers, H. Ford), who created "cultural monuments to themselves." Their foundations still exist, being part of their money spent on social needs. J. Rosenwald, on the contrary, by directing his funds to improve the living standards of local residents, expanded the capacity of the market for selling his products.

But under the globalization, when the world economy is becoming more diverse, emotive, and multi-directional, it becomes very difficult to explain the social responsibility of the business solely with the incentives stemming from altruism and selfishness. In our view, the solution to this problem requires a new approach to understanding of socio-economic institution, which would justify the conditions of sustainable development of a socio-economic system in the rise of global challenges, and the increasing multidimensionality of the economic world, and at the same time restore the relations of trust in the society in the long perspective.

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**PROBLEMS OF  
EUROPEAN  
INTEGRATION**

In Ukraine's integration into European and international structures were allowed many unfortunate mistakes. No doubt there are objective reasons for this, but one thing is clear – absence, especially in the regions of highly skilled professionals from foreign trade activity prevents the advancement of our country to a civilized community.

Recently, this problem is quite noticeable, due to new market demands of professional specialization and experience of international management in modern conditions.

The value of foreign economic activity in all countries development, including Ukraine, is growing. Historical experience confirms the utility of increasing the participation of countries in the international division of labor and various forms of international business. Conversely, curtailment of foreign economic activity inevitably leads to slower social and economic development of a country, the emergence of complex problems that can not be solved not only in economics, but also in other spheres of public life. Therefore, the process of globalization and internationalization of economic life can be considered logical taking into consideration the strengthening of interdependence between countries and the growing reliance of their economies.

In today's world more clearly is the trend towards integration in the international economic environment. A proof of this is the close interdependence of production and international trade. Today, most products coming onto the market through foreign trade or are manufactured using ingredients that are imported from abroad. [1]

The processes of economic integration are ambiguous. There is increasing production efficiency by deepening specialization. Due to

increased trade increases economic activity in many countries.

The process of joining Ukraine in global economic relations largely depends on the quality of decision-making in the field of foreign trade. International business operations, as well as internal, are the result of determined actions by management: forecasting and planning, organization, motivation, leadership, control, and so on.

Of course, all mentioned functions of management in foreign economic activity have essential features. For example, the planning process we should consider bilateral relations that influence the choice of partners. Marketing of foreign economic activity based on the study of international markets, features requests of foreign customers, promotion of products and services to foreign markets is carried out according to local traditions and the numerous restrictions and so on. [2] A different look has the function in foreign trade organization. For example, the enterprise that goes to foreign markets immediately raises the question: to create their units abroad or look for foreign agents there? This is a specific of foreign trade organization, as domestic business operations to organize are much easier and less risky.

Similar problems arise in other aspects of international management. This as a result leads to that the general management systems sooner or later with an increase in international operations stands relatively isolated management subsystem of (management) foreign economic activity. [3]

International Management (FEA) is associated with the use of general ideas and concepts of management in all forms of foreign economic activity (exports and imports of goods and services, leasing operations, direct investment and so on.). The essence of International Management is in a comprehensive study and modeling of international environment combined with the lack of cooperation of all departments and officials of organizations or institutions in the achievement of productive foreign strategies.

In Ukraine the possibility to use management, including the external sector appeared during the restructuring period at the beginning of the transition of the country to the market economy. Thus, of course, we are talking about the formation of foreign economic activity management, about the elaboration of approaches and principles to its formation and use at the present stage in the development of the country.

The experience of market countries of the world shows that their economic success is largely due to the liberalization of foreign economic activity of enterprises. Still no one country in the world has not managed

to create a healthy economy by isolating their businesses from the global economic system. Foreign trade of enterprises brings many advantages that stimulate their economic growth and the economy of a country in general. Thanks to foreign trade of both an enterprise and a country are able to specialize in several leading areas of economy, because they can, firstly, to export the products in which they have achieved the best success, secondly, to import products or capital required for production or consumption. In addition, foreign economic activity contributes to the spread of new ideas and technologies. [4]

Activation of foreign economic activity must be for Ukraine and its enterprises one of the major challenges of transition period. The more Ukraine joins the international division of labor, the faster its enterprises will adapt to the market economy conditions. This is dictated by the general state of world production and world trade [5].

Regulations of the foreign economic activity of a country, and also of a foreign trade and financial flows internationally become increasingly important in the context of internationalization of economic life and the increase of the economic interdependence of countries.

The objective necessity of economic regulation of foreign economic activity stems from the growing interdependence and interconnectedness of national economies and the corresponding intensification of economic systems development between countries; inconsistency of national legislation in different countries, which requires the creation of such a mechanism of regulating foreign trade, which would ensure a balanced coordination of national legal structures.

The important role in the aforementioned system plays World Trade Organization – WTO. Today it is the leading organization, its members are already 161 countries of the world, which account for about 96% of volume of world trade. In recent years, significantly expanded the scope of the WTO activity and has far beyond its own trade relations. WTO is a powerful and influential international structure that can serve as the international economic regulator [6].

Processes of internationalization of companies and countries occur involving certain international unions, communities and certain international organizations. Together, they can help to international business solve its relevant, especially financial and other economic problems [7].

Disadvantages of transnational corporations in Ukraine are closely related to the benefits for the country. The main disadvantages are:

- 1) In many cases, transnational corporations use the Ukrainian

economy as raw materials, transferring to Ukrainian partners not appropriate to their level of development technologies with rigid restrictions on sale [8].

2) Doing business in economic activities that benefit multinational companies, not the economy of Ukraine. Along with the vigorous activity of TNCs (transnational corporations) in areas with rapid turnover of the capital and secured target markets there is insufficient level of investments in others, very important for the Ukrainian economy, economic activities.

3) TNCs demonstrate their social responsibility in Ukraine, but in practice very often violates certain rights of national labor, are used flaws of Ukrainian legislation on environmental protection sphere and others.

4) International companies avoid paying taxes through internal flow of capital to countries with lower taxation. In 2012 the State Tax Service of Ukraine raised the questions about resolving problems with tax evasion by national and international companies through transfer pricing mechanisms [9].

5) The ability of multinational corporations to influence pricing in the country, leading to a takeover or bankruptcy of domestic manufacturers, but also makes the Ukrainian economy dependent on the activity of multinational companies [10].

The involvement of transnational corporations in Ukraine and also an optimal distribution of foreign direct investments (FDI) by types of economic activity is only possible under the terms of improving the investment climate in the country. The set of measures to solve the present problem should include:

1) Overcoming bureaucratic barriers and corruption that will provide a clear legal framework of investment activity. Compliance with legislation of Ukraine to modern standards of the global economy in investment, clarity of legislation and compliance with its rules will improve investment climate and the consequent growth of foreign direct investment.

2) Introduction of tax and customs exemptions, grants, subsidies, subventions, budget loans. These measures will not only attract more foreign investment, but also encourage foreign companies to develop priorities of economic activities types for the Ukrainian economy. Along with this there is a need to create such conditions that would not have limited the opportunities of domestic producers in consequence of receiving certain preferences by foreign companies. In 2012 Ukraine

began the process of renegotiation of the WTO. Appealing to the 28th article of the GATT, which allows all member countries of the organization every three years to initiate a review of the import duty, the Government of Ukraine has prepared a list of 371 commodity items [11]. The main purpose of these measures is to protect domestic enterprises in the country's integration into the world economy.

3) The macroeconomic and political stability, which will positively affect the image of Ukraine as a country attractive for investment.

4) Improving living standards in Ukraine that will increase the demand for goods and services of international companies and encourage them to develop industrial enterprises in the country.

In the modern world, along with the involvement of foreign companies in the economy of Ukraine there is a need to create their own transnational structures. The positive experience with the formation of multinational corporations in China, India, Russia and other countries makes it possible to assert that the national capital is able to compete with international companies if the country arranges conditions for building powerful financial-industrial groups, like their international competitors and able to pursue an active foreign policy.

Along with obtaining competitive advantages as a result of TNK activity, the Ukrainian economy is negatively affected because of their performance. In order to minimize the negative effects on the activities of multinational companies in the country and attract more foreign direct investments, there is a need to implement effective measures to improve the investment climate and development of the domestic economy with the provision of priorities for strategic importance for the kinds of country's economic activity.

In justification of foreign policy, particularly towards improving the country's competitiveness, it is necessary to bear in mind that all States use different methods of restricting of competitors of their national firms. A common, for example is impeding the penetration of foreign competitors in the domestic market, creating more stringent conditions for their functioning, limitations on repatriation of profits and capital, increasing environmental requirements and so on.

Formation of regional integration groupings led to that along with the regulation of foreign economic relations at the national level applies their regulation at the international level and at the regional level. Thus, in the 50-60 years of the XX century, after the formation on the basis of the Treaty of Rome the European Economic Community, began the process of unification of the regulatory framework of the Member States

of the community, using the same forms of financial and organizational assistance to exporters, to small and medium businesses, conducting the unified antitrust policy. Thus, in shaping the international competitiveness of countries began form the collective protection policy.

To support its exporters individual states and also regional integration groups actively use political means. Thus, the US and the EU signed an agreement on cooperation on questions of the competition policy.

Due to increased competition in the global market is expanding the arsenal of using hidden funds to support own exporters. An example of this is the EU policy in the field of agriculture in which to prevent surplus of agricultural products on the internal market, the fall in prices (and consequently – wellbeing of farmers), is stimulated the export of products outside the EU, and even sell it at lower prices. The difference between the prices is compensated from the structural agricultural funds. This mean of economic development is nothing but a hidden subsidy. This is not entirely consistent with the principles of free trade and competition.

Formation by each separate country their own competitive advantages necessarily reflects on the results in the policy of competitiveness of other countries, as production, exchange and consumption of various actors of the world socio-economic system is interdependent. With the deepening and expansion of international relations strengthens the role of multilateral regulation of international relations [9]. International regulation of foreign economic activity is represented by the agreements within the international organizations of the UN system. The latter, for example, belongs to the General Agreement on Tariffs and Trade, which later evolved into the creation of the World Trade Organization (WTO). At the present stage the WTO put a question of achieving free trade not just by its liberalization but in a system of so-called mutually connections: the decision to increase tariffs on one product must be consistent with the liberalization of imports of other product. According to this it should be noted that for the successful negotiations for the country-aspirant is important to know which products are of the greatest export interest to WTO members; to identify goods which import is encouraged in these countries, and in the negotiation process try to reach a mutually beneficial agreement. It must be understood that in the process of such negotiations can be tough and sometimes unreasonable demands from WTO members.

Consequently, the applicant country must have a balanced and well-reasoned position of protecting their own interests, to oppose counter-demands and requirements [4]. Based on the above it can be concluded the importance to strengthen international regulation of foreign economic relations and monitoring compliance with international trade rules in developing and promoting competitive advantages of a country.

The membership in WTO is seen as a systemic factor in the development of national economy, trade liberalization, creating a predictable environment for foreign investments, which meets the national interests of Ukraine. International experience shows that WTO Members receive significant benefits.

The main advantage which will get Ukrainian businessmen after the Ukraine's accession to the WTO is the creation a transparent and predictable business environment in Ukraine. After Ukraine's membership in the WTO, the countries – trade partners will be required to reduce import tariffs and other non-tariff trade barriers on Ukrainian products.

From Ukraine's WTO accession will benefit primarily export-oriented industries (particularly steel and chemicals), and significantly worsen the situation of enterprises which mainly focused on the domestic market (motor industry, electronics, agriculture, food processing, light industry, etc.).

Most of our products are not competitive in the European market that means that in the early stages of course will arise some obstacles, but still eventually our manufacturers will have to contend with competition, and it is known only in a competitive environment, appear new ideas and the desire to “survive”. The conclusion of the FTA and Association Agreement with the EU first – and above should be considered as a significant political signal that Ukraine has serious intentions about reforms and modernization of its economy.

The defining feature of modern Europe is integration processes that ensure the development of Western Europe countries, became a model for other countries of the continent. The formation of the European Union – a complex, multistage process in which participating countries had to solve severe economic, social, political and legal problems, to find adequate answers to the challenges of time. The development of integration processes in Europe is common, defining its present and future development, the place in international economic relations. As for the movement of Ukraine integration into the European Union, there is, unfortunately, the situation is not reassuring. The main achievement of

Ukraine is only the recognition by all parties and authorities of European integration the main direction of development of the state and close cooperation with some countries – members of European Union. European integration is the most determining factor both the international activity of Ukraine, and its internal policy on long-term, establishes a safety and positive affects on Ukraine's relations with all countries. The implementation of course for integration into the European Union will guarantee human rights, development of civil society in Ukraine, the construction of a social market economy and huge financial support from the EU. So, to speed up Ukraine's integration into the EU should be taken the following immediate actions:

- 1) to stop further social stratification;
- 2) to provide true, not just on business development;
- 3) the economy out of the shadows;
- 4) the easy access to credit, financial and information resources, product markets;
- 5) the effective implementation of legislation on fighting fraud and corruption;
- 6) to strengthen financial control of structural funds and development funds;
- 7) judicial reform, property rights and human rights;
- 8) the development of a new foreign economic strategy taking into account the positive and negative factors of Ukraine's integration into Europe.

Thus, the boundaries of public policy formation of the international competitiveness are defined, on the one hand by the need to expand domestic exports and the development forms of international cooperation, on the other – by the rules of bilateral and multilateral relations, which are not always equivalent to all participants in such relations.

The appearance of Ukrainian entities in international markets and their competitiveness in these markets requires the consideration of not only international law, but also the real role of the state to support domestic producers and limit competition from producers of other countries.

Today, the activation of foreign economic activity must be for Ukraine and its enterprises one of the most important tasks. The more Ukraine joins the international division of labor, the faster its enterprises will adjust to epy market economy. [9]

Ukraine's integration into the international community requires the



implementation of such model of economic regulation in foreign economic activity of enterprises that would meet the interests of the state and private, also foreign business, and contributed to the establishment of new forms of cooperation in this area. Introduction of new trends in the organization of such a model and taking practical steps to expand export operations of enterprises through the development of foreign trade activities of regions will contribute to the economic transformation and the creation of a competitive productive potential in our country.

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**FORMATION OF  
STRATEGIC GUIDELINES OF  
UKRAINIAN ECONOMIC  
ACTIVITY ECOLOGIZATION  
IN THE CONTEXT OF  
IMPLEMENTATION OF THE  
ASSOCIATION AGREEMENT  
WITH THE EU**

**Problem Statement.** Dynamic twenty-first century is not only the age of space growth of the world economy, increased competition of companies, corporations, alliances, states. Emergence of new innovative forms of doing business is a period in which economy, society and ecology form interrelated triad whose operation and coordinated development influence future of civilization. Therefore, it is currently impossible to speak about successful economic development of any state without analyzing its impact on the ecology and society as a whole. Currently it's expedient to measure the development level of each EU country using integrated indicators of sustainable development, namely the concept of sustainable development had been the basis for the solution of global environmental and economic problems [2, 3, 5]. Thus, it is appropriate to point out that the International Community of Environmental Economics with dozens of countries as active members defines ecology as "nature's household", and economy as "humankind's household" and aims for surveying "business environment", "economy of nature" and entire complex of relationships, including economic subsystem as an integral part of the global ecosystem [1, p. 125].

**Analysis of recent research and publications.** In his works researcher Yu.Yu.Tunytsya considered the issues of economy ecologization in Europe; A.P.Holikov, N.A.Kazakova identified strategies of development in the direction of the European context; T. Perga defined main directions of ecological policy as an instrument of

closer relations between Ukraine and EU.

**Target setting.** The level of anthropogenic impact on the environment in Ukraine is quite high, as it is 4-5 times higher than in developed countries. With this in mind it is obvious that slow development of Ukraine's economy, difficult environmental situation and tendencies are quite negative. Its deterioration is complicated by the fact that among European countries our country has the highest level of integral human impact on the environment and at the same time quite little internal financial capacity to solve the problem. Above said necessitates the search for new effective ways of economic growth without harming the environment, but also of meeting the challenges to reduce human impact on it. Therefore the problem of forming economy ecologization mechanism is extremely important and requires generalized attitudes due to which it is possible to give practical advice on ways of formation, functioning and development of forms of ecological and economic guidelines of the country.

**Statement of the main research.** In the context of these global trends EU states are gradually developing strategies, concepts of development and functioning of economy, which would neutralize the negative impact on the environment and state of ecology on the whole. Note that many advanced countries have achieved significant results in this matter and instead switched to a new type of economic activity, namely to ecologization. Currently our country is among the “outsiders” of businesses taking into account environmental requirements.

Ukraine worked out the strategy of national environmental policy until 2020, aimed at ecologization of economy, environmental improvement, rational use and restoration of natural resources, ensuring environmental safety, consistent reduction of environmental risks for human health, introduction of ecological labeling of goods and food, bringing drinking water quality according to European standards, improving air quality, climate change prevention by technical re-equipment of industrial complex and introduction of energy-efficient and resource-saving technologies, etc. [8].

According to [10, p. 32], the operation content of above mentioned mechanism managing environmental and economic activities of an industrial enterprise is a combination of social, industrial and social relations. Some scientists-economists define ecologization as “objectively determined process of converting all public works aimed at preservation and development of socio-economic functions of nature” [10, p. 33].

Most of the scientists [1, 2, 3, 5, 9, 10] treat ecologization of economy as pragmatization of regularities of relationships of living organisms with the environment in which they operate. These regularities are to be experienced by a person in order to provide the necessary conditions for the development of the biosphere in the field of intensive management. Thus, summarizing all the above, we can affirm that ecologization is a further development taking into account the ecological dimension as a major in the development and operation of any component of the economy and business of a country. It is necessary to consider reducing human impact on the environment, conservation and restoration of natural resources, modernization of production and introduction of low- and non-waste technology, conducting various environmental measures, environmental focus of investments, etc. In addition, ecologization should be also understood as a process of strict and consistent implementation of technological, administrative, legal and other solutions that enhance the efficiency of natural resources and environment, along with improving or at least maintaining the quality of the environment.

Thus, international experience of business ecologization shows that this type of activity is characterized by diversified area of operation, which provides not only environmental, but also significant economic effect. In particular, the EU states established a strong market of ecological industry, covering strategic objectives of ecologization.

Accordingly, we have formed strategic ecologization guidelines of Ukrainian economic development in the context of implementation of the Association Agreement with the EU [11] (fig. 1.1). It is all above mentioned directions of economic ecologization in fig. 1.1 to be implemented in Ukraine, because those are businesses able to realize their potential at the market of ecological industry which will receive considerable strategic advantages. According to the National Institute for Strategic Studies, Ukraine is on the 102 position among 132 countries in 2013 in the international ranking of Environmental Performance Index, which indicates that Ukraine has not carried out a single coherent state policy on economic ecologization, providing introduction and implementation of the principles of environmental management and minimizing the negative impact on environmental objects in implementing man-made activities [4, 9].

However, to achieve maximum results from the economic ecologization of Ukraine is possible only through restructuring of entire economic complex and overcoming irrational structure of its territorial

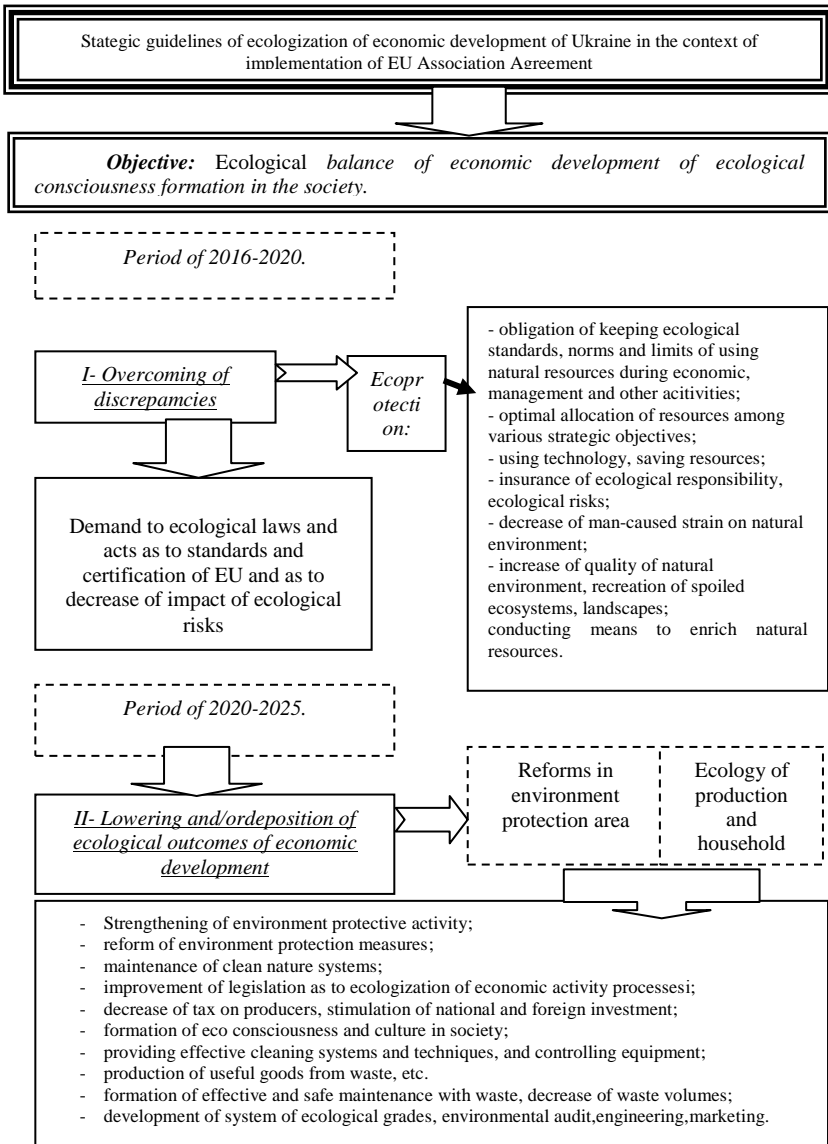


Figure 1.1. Strategic directions of ecologization development  
 Source: worked out by the author.

organization. The following is necessary for this: effective legal regulation of public functions regarding ownership, management and use of natural resources; creation and implementation of unified inventory of natural resources; taking into account the possibility of attracting technogenic deposits and waste in shaping the balance of natural resources at all levels of nature; creating effective financial and economic system that would ensure compliance of fees for natural resources, environmental damage and other negative effects of their use and would contain, in addition to fiscal, incentive mechanisms for renewable use (including energy) resources; promoting the search for new resource-saving high technologies.

We believe that Ukraine needs to change the vector of economic development and entrepreneurship in favor of the ecological component. Thus, it is reasonable to gradually introduce complex national and international economic benchmarks that will facilitate the creation of environmental and anthropogenic safety.

It is worth noting that for Ukraine mobilizing of all mechanisms for ecologization is not only adherence to the proclaimed vector of the state development but also a point to improve competitiveness of the country on the world market, the basis to implement investment and innovation projects, to upgrade production facilities, and to improve working conditions. Fig. 1.2 presents the main mechanisms (in terms of use and exposure) that influence the development of modern ecological enterprise.

It is important to note that the economic ecologization mechanism should meet specific requirements.

Thus, this analysis allows determine the basic mechanisms stimulating an environmental business that are important for Ukraine and which, according to the authors, should be divided into the following groups:

- legal and regulatory (introduction of new regulations and laws to enhance environmental business and environmental benefits for business development and implementation of regional initiatives and programs);
- economic (input of tax benefits, discounts on investment, targeted subsidies, preferential loans, accelerated depreciation procedures, concessions, infrastructure maintenance);
- institutional (creation of structures to enhance the development of environmental enterprise, setting up partnership initiatives with industry unions, Chambers of Commerce).

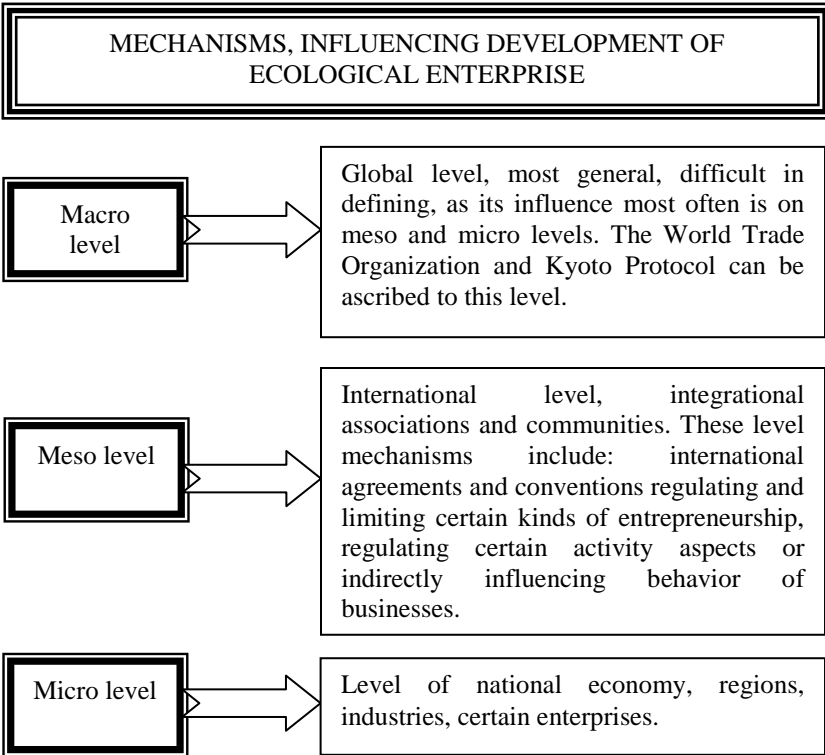


Figure 1.2. Main mechanisms of impact on development of modern ecological enterprise

*Source: worked out by the author based on the source[4]*

We believe that currently the problem of ecologization of production should be regulated and resolved at the state level, not at the enterprise level. Similarly as ecologization mechanism of business and of the economy in general, it is reasonable to consider production ecologization mechanism which various scientists understand as the complex variety of instruments, norms and institutional structures through which financial, economic and organizational assistance promotes the implementation of environmental protection measures.

Functioning of the economic mechanism is possible in the presence of an effective institutional mechanism both at farm and at the national level. The organizing mechanism of ecological production at the farm level is a system of organizational relationships arising in the dynamics

of economic and financial activities between structural divisions aimed at improving its environmental level. Instead, organizational and economic mechanism of environmental management at the national level is a unity of management functions and economic, legal, administrative and social measures aimed at ensuring efficiency and security of use and protection of the environment. It is based on the relationship of market mechanism and government regulation.

It should also be emphasized that special interest to ecologization of economic activity from all world countries provoked by the introduction of so-called new global “green course” (proposed by UNEP experts, better known as the ideology of “green” economy making, “Rio + 20”, 2009). The main objectives of the course are the following: to create necessary conditions for the preservation of natural resources, to improve the efficiency of their use to stimulate more responsible and efficient production methods and consumption habits and the transition to a low carbon economy development of the world. [12]

Accordingly, returning to Ukraine, it is important to note that the first-mentioned economic mechanisms, controls and forms implementing the principles of “green” growth of national economy appeared in the Tax Code of Ukraine as a mechanism of ecological taxation (through the introduction of environmental tax instruments widely represented by own species, including carbon dioxide (CO<sub>2</sub>)). It is difficult to overemphasize the importance of the introduction of this tax in view of the fact that Ukraine inherent energy intensive economy, which in terms of power consumption is almost three times higher than the average in the European Union, where GDP is formed mainly by energy-intensive industries. The peculiarity of this new environmental tax is that it can create an incentive for Ukrainian domestic enterprises to reduce energy intensity, at least judging from the experience of Western countries, which for the past thirty years have been successfully using it for promoting energy efficiency and reduction of greenhouse gas emissions. At the same time, income tax at statutory rate of CO<sub>2</sub>, according to calculations, will provide 0.02% GDP growth annually until 2020.

**Conclusions.** The accumulated international experience shows that the economic mechanism of economic ecologization turns out to be the system-set of incentive instruments that govern the economic behavior of entities, guiding them to implement energy-saving measures and, therefore, to achieve balance of environmental and economic functioning of social production, the quality of the environment. In fact,



it realizes the challenge of integrating environmental and economic policies through the idea of economic ecologization and makes it possible to identify potential sources of economic growth without creating unsustainable pressure on natural wealth.

It is noteworthy that the global community for the transition to ecologization of economy is proposed with such strategic guideline, which will help increase public investment in adequate sustainable development infrastructure and natural capital to restore, to maintain and to increase volume; introduce the system of public procurement encouraging the production of environmentally friendly products and environmentally consistent methods; target government support for development related to the creation of environmentally friendly technologies.

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**THEORETICAL CONCEPT OF  
ECONOMIC POLICY OF THE STATE  
TO RESOLVE ECONOMIC AND  
SOCIAL CONTRADICTIONS OF THE  
AGRARIAN SECTOR OF UKRAINE  
AND ENSURE ITS SUSTAINABLE  
DEVELOPMENT**

The importance of the agricultural sector in the national economy of any country is obvious. It is part of the backbone of the national economy, which ensures the development of technologically related sectors of the national economy and creates social and economic framework for rural development, principles of food and within certain limits economic, environmental and energy security.

Regarding the agricultural sector of Ukraine, it generated 12% of gross value added. By agri-food products provided over 30% of total exports of the state. Every third dollar in the economy is now bringing

the agricultural sector, thereby influencing the monetary and financial stability in the country and welfare. Therefore, given the significant prospects capitalization of the agricultural sector and the projected long-term increase in demand on world markets for agricultural products, domestic agricultural sector can become a “locomotive” modernization of the economy.

However, today the state of the field is disappointing and poor, through the years it accumulated problems and unresolved contradictions. Some of these problems are caused by errors in management at the macro and micro level, and some – contradictions in the system of agrarian relations, or rather their untimely identification and solving. Here are some of them. For example, the contradiction between centralization and economic independence, which is expressed in a contradictory interaction administrative-command economic management and market conditions; the contradiction between forms of ownership and management; contradictions in social development in agriculture (as a residual financing); the presence of intermediaries in the sale of products (contradiction between producers, intermediaries and consumers); availability of price scissors between industrial and agricultural products, which aggravated liberalization of prices; contradiction existing system of procurement (low purchase prices and the high prices’ implementation); commodity crisis of the agrarian economy (in the structure of commodity products increased proportion of grain and sunflower decreased production of feed and livestock products), and so on. d. It is because of the neglect of the deep roots of today’s problems in the agricultural sector, the Ukrainian government has not been able, so far, a successful agricultural policy, strategy and tactics for the implementation of the objective laws of development of agrarian relations.

Now the main task of economic policy – the formation of an efficient and competitive agricultural sector based on sustainable development. However, the competitive development of agricultural production is impossible without the continuous and systematic improvement of the state Agricultural Policy (which is part of economic policy) and introduce effective controls on the basis of improved rules of conduct of business entities, government and civil society actors with the assistance of international best practices. The basic components of this policy is the appropriate institutional mechanisms of direct state influence on agribusiness system which, when harmonized interaction of market mechanisms of self-regulation creates favorable conditions for its

effective development, combining private and public interests. It should be remembered that the formal harmonization of the institutional and legal framework of the domestic agricultural sector according to EU requirements will not solve the existing problems. It is necessary to provide scientifically grounded completion of all components of agrarian reform, create conditions for innovation and technological modernization of the industry to produce a wide range of competitive products according to harmonized standards with high added value, the development of modern management and marketing for its promotion in international markets, to de-monopolization and de-shadowing of the agricultural market, to create equal conditions for the small, medium and large business hospodaryuva tion that promote rural development, provide real support of service cooperatives as an institution that in the present conditions can ensure real protection of the interests of small and medium-sized manufacturers, to promote the equalization of competition of agricultural holdings, be a factor monopolization of the agricultural market, attracting investments to improve more. It has to be ensured real mix of private, public and social interests [5].

That is the subject of government regulation should be the economic interests of entities and created for the state of economic rules. Particular attention should be paid to the functioning of the organizational forms of business entities as institutional framework for implementing motivations. After the formation of economic interests takes place directly in the business activities, the results of which are defined as internal (management structure, technical and technological features of production, etc.) and external (market, state, international institutions) motivation.

Now the main task – harmonization of property relations, streamlining of organizational and economic relations, development of an effective mechanism of motivation and konstruktivizatsiya pricing system for agricultural products. These problems must be solved adjustment mechanism of economic interests by introducing effective institutional mechanism.

The solution to today's problems in the agricultural sector of Ukraine, primarily associated with the completion of land reform, the removal of the moratorium on sale of agricultural land, including the cost of land in the economic cycle and the recognition of its capital as the other means of production. This should strengthen and improve the financial condition of agricultural enterprises and the formation of an efficient owner-host. However, the question of lifting the moratorium on

sale of agricultural land is not now clear solution. In our opinion, based on the fact that Ukraine's economy is irreversible market orientation, we have, nevertheless, to be held development and introduction agricultural land market. However, to address this issue should come from scientific reasoning.

We believe that the formation of a land market in Ukraine should be an evolutionary way, as the formation of its basic elements, namely the establishment of an appropriate legal framework; availability of land as an object of sale; availability of potential sellers of land and solvent buyers of these areas; create the necessary market infrastructure; the introduction of organizational and legal mechanism functioning land market; the introduction of state regulation of land market. Today in Ukraine, most of these elements is missing. So, not an inventory and certification of land, land exchange is not created, there is no legal framework to regulate the land market is not the role of the state in regulating economic turnover of land, virtually no solvent buyers both. To address these issues requires more than one year.

If the soon to be introduced market of agricultural land, it could lead to a decline in production and worsening social situation in the countryside. First of all affected businesses owners who will be forced to buy their leased land rent, as predicted large number of people willing to sell his share. And farmers will not benefit because the conditions of the great offers they sell their shares at low prices and thus lose ground and not be able to continue to receive income from it. Wins in the short term only through state tax revenue. As a result of this option completion of land reform violated the integrity of the tracts of land, there will be a further de-concentration of production, leading to a fall in output, worsening food situation; hampered the pace of modernization, which adversely affect the competitiveness of domestic agricultural products; will not invest funds in the development of rural infrastructure; there will be a further depletion of soil crops with higher price; buying land small group of people, which will lead to monopolisation of agricultural production and ultimately to an increase in selling prices of agricultural products; again, part of the land will not be processed due to lack of funds seem to rent or be resold. In addition, part of the land will be bought by foreigners through nominees for the gathered schemes.

Therefore, this matter should take into account the political, economic and social aspects. The political aspect is that the land is the property of the people, so the state must be the key players in the market

of agricultural land and should have a significant amount of its rights to regulate circulation. The introduction of the land market should take place in an evolutionary way to achieve economic and social effects. The economic aspect is choosing this option complete the land reform, which would have created the conditions for increasing agricultural production, improving the competitiveness and productivity of land. The social aspect is that this reform should be carried out in the interests of farmers, farmers. The land must belong to those who work it. Only then private ownership of land will be relatively socially just and create incentives for effective management of the owner and the owner in one person.

That land market in Ukraine will be possible only when the agrarian become its active member. In this regard, first of all, you need to focus on improving the culture of land relations in Ukraine by encouraging cooperation, improving lease relations and distribution of mortgage operations. Proposes to introduce a full land market in two stages: 1) preparatory period covers improving lease relations and dissemination of collateral land, promotion of cooperation; 2) during the final formation of adequate conditions for market land with the state and taking into account the interests of both land owners and society as a whole.

Taking into account international experience and the possible consequences of the introduction of the land market, we consider it appropriate that one of the subjects of the land market was the state. This will allow her to not only control the process of change of ownership, provide protection and rational use of land, but also help solve strategic issues of agrarian sector of Ukraine. But the strategic goal of state action should be no redistribution of land and the creation of effective competitive market-economic structures and distribution, primarily lease relations and mortgage operations. It is necessary to create conditions under which farmers would not be interested in selling land and businesses – in their massive buying. To achieve the first goal must provide legal certainty address the issue of the moratorium on sale of agricultural land and facilitate lease relations, in particular by increasing rents and improving value forms of payment. As for the second goal, there should ensure the growth of land prices, set a number of restrictions and bans on changing purpose, the concentration of large tracts of land in the hands of certain individuals and entities, to promote long-term lease.

As for economic reforms, but now it depends on the success of

multiculturalism and competition of different forms. As part of this system should be mixed agricultural cooperation (production and service) to help agricultural producers confront intermediary business, get the effect not only on production but also on maintenance, processing and marketing. It has a market competitive environment, to promote the revival of large commodity production, investment in the agricultural sector, farmers and provide employment to take account of their interests, promote the preservation of rural areas. However, should develop other forms of management. Especially necessary to create cooperatives to households, which is currently the main producers of agricultural products.

Regarding the development strategy of private farms, the strategy of further development in Ukraine should be aimed at increasing the productivity and efficiency of their operation, above all, by providing support from the state, the promotion of cooperation among themselves and with farms, integration of processing and marketing companies. Implementation of these measures will increase in their agricultural production, increase their marketability and help address the problems of rural employment. The most rational directions of development of private farms are: 1) private farms specialized in labor-intensive forms of agricultural production; 2) cooperation between economic entities themselves and their integration with other forms of management on the production, procurement and sales, as well as enterprises third sphere of agriculture; 3) the development of special programs at the state, regional and district levels, which would take into account the need for their specialization, cooperation and integration and the like.

It is necessary to strengthen the agricultural production processes of regional specialization and integration as mutually beneficial forms of cooperation between participants of agricultural products, development of cluster organization and management of agricultural production. Distribution clusters in the agricultural sector is one of the best ways to establish mutually beneficial and competitive relations between farms and enterprises, institutions and organizations related to them industries. Their distribution will create conditions for the growth of agricultural production and sustainable rural development, ensuring a high standard of living in rural areas. Within the cluster-based integration and cooperative relations will rapidly adapting agricultural, industrial and processing enterprises to competitive conditions today are very important for development of agrarian sector of Ukraine. However, it should be noted that the development of clusters – a long process that

can be implemented only on the basis of the strategic management of socio-economic development of territories and economic structures aimed at the fullest use of local resources and advantages.

The advantages of cluster organization of agroindustrial production are: 1) the competitiveness and innovation of such units; 2) all participants clusters retain legal independence and have the same number of votes in making joint decisions; 3) higher social orientation of clusters compared with corporate units through a common interest in the efficient operation of the cluster from both major participants and authorities, local authorities and public organizations. However, cluster organization of production inherent drawbacks, including: 1) the removal of government agroindustrial production of the organization of business entities; 2) members of the cluster (the economic structure and state authorities) involved in making plans and projects that are designed primarily for the short term.

The most appropriate in the agricultural sector is to develop two types of clusters – innovatio and production. Innovation cluster is the most progressive form of achieving competitive advantage, as is the union of scientific and research institutions, educational institutions, consulting companies, engineering firms and other organizations based on a common centralized coordination of their actions. Industrial cluster brings together companies producing, processing and storage, logistics and network marketing companies and service companies. Its main advantages are closely inter-economic relations, the conditions for an action economies of scale by sharing the productive forces and achieve a significant competitive advantage by creating a closed cycle of production, storage and processing.

As the strategy of development of agrarian sector of Ukraine in the coming years will be to establish the production of high-quality products and improve the competitiveness of domestic agricultural enterprises, for its implementation requires a long-term strategy of innovative development of the agricultural sector, which should be aimed at carrying out technical and technological modernization of agricultural production, introduction of resource technology, supporting scientific research and others. The main obstacles to the development of innovation Ukraine agricultural enterprises have insufficient financial security companies and undeveloped information system innovation process. In this regard, in order to enhance innovation activity agricultural enterprises should: to restructure the economy towards increasing the share of high-tech production; encourage the development



of knowledge-intensive industries and industries by providing tax incentives for companies that use technology and the introduction of penalties for those entities that produce products obsolete and inefficient use resursotehnolohiyi, energy technology, ekologhotehnolohiyi; development of innovative infrastructure on the basis of education-science-production; improve the legal framework and increase the wages of workers research institutions; raise awareness of farmers in the diffusion of innovation. That leading role in shaping the financial resources of farms to achieve these goals should belong to the state financial support, which should concentrate primarily on priority, the most socially important sectors. In addition, funding should be targeted, timely, is systemic and implemented in full.

For relaxation disparity in prices for industrial and agricultural products take the following measures:

- first, to create an economic mechanism that takes into account the conditions of the law of value, in which are created equal economic conditions for all entities. For this pricing, taxation and lending should be considered an indicator of return, and the assets include the price of land. However, because the land is not a financial asset or produced, so the only costs or improve the quality of soil fertility can be considered as material produced asset.

- strengthen state regulation of prices by setting ratios of price changes, the value ranges change prices and regulation on cross-sector level profit margins and profitability levels to establish prices that would reimburse the costs and provide sufficient profit margins for extended playback. It is necessary to strengthen and monitor compliance with antitrust laws. This will reduce price fluctuations and ensure optimization of price sensitivity to both producers and consumers. For these activities to be created public body or system of bodies that will conduct research in this area, based on which will be taken and appropriate management decisions which, in addition, will be responsible for timely and acceptability of such decisions. The feasibility of such actions caused by the fact that the state income support to agricultural producers by providing grants budget is cumbersome and limited to WTO requirements.

- to maintain prices at a certain level the state should continue to use tools such as loan for direct compensation payments. Moreover, price stabilization should occur through the mechanism of loan prices, and providing an equivalent cross-sectoral exchange – through direct compensation payments;

- weakening disparity of prices and monopoly confrontation I and III in the areas of agribusiness should help the formation of cooperative associations at the level of districts and regions, integration with third farm area of agribusiness;

- crucial in weakening disparity in prices should be increased productivity by increasing gross agricultural production and reduce the cost of agricultural production by increasing crop yields and animal productivity, improve software technology, improving the quality of technology, increased regional specialization and others.

The basis for the provision of investment resources of agriculture should be to create conditions for combining areas II and III areas of agribusiness in the same complex. One of the areas to solve this problem is to create a regional branch of the food sub-complexes complete organizational and technological cycle of production of food.

Thus, the reforms in the agricultural sector should follow the following principles:

1. Ensuring the consolidation of land in private property direct producers. This manufacturer sold direct connection with the land and created the most favorable conditions for effective management;

2. Background efficient agricultural production is its organization on the principles of agricultural cooperatives that provides immediate priority interests of producers;

3. The formation of special institutions for the protection of peasant interests against the negative effects of market relations;

4. State regulation of the sector should be carried out mainly by economic methods. The main directions of state funding should be: support prices and incomes entities; fundamental research and application of their results in production; collection of information and its analysis; preservation of soil fertility and its rational use and protection; development of industrial and social infrastructure in rural areas; quality assurance and food safety and so on. With funding social programs in rural areas must be remembered that the unit costs of social services in rural areas is higher than in the city because of the lower population density;

7. Ensuring evolutionary agrarian reforms, which provides them the support of the peasants, progressive extension of social and economic trends that occurred in the pre-reform period, and the preservation of existing industrial and scientific potential of the agricultural economy;

8. Due to the seasonal nature of production and income fluctuations rural population and most farmers should promote the creation of a rural

environment for the development of non-agricultural activities (such as rural tourism, artisanal crafts, clothing repair shops, construction of educational institutions culture, health, processors, etc.) [8].

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## Chapter 2

### **TRENDS AND PRIORITIES OF THE DEVELOPMENT OF INTERNATIONAL TRADE IN GOODS AND SERVICES**

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**CONSTITUTIONAL AND LEGAL  
BASES OF FORMATION OF BODIES  
OF STATE ADMINISTRATION IN  
THE SPHERE OF FOREIGN TRADE  
OF THE USSR IN THE FIRST HALF  
OF THE 1920S.**

One of the main directions of development of Ukraine as an independent, democratic, social and legal state is the effective implementation of foreign economic activity. Important place in it, is given to the implementation of foreign trade with other countries, which is not only an indicator of the economic situation of the state in general, and the main source of income, but also affects the formation of international image of Ukraine. In particular, Ukraine is the “breadbasket of Europe”, so, in 2016, our country is among the three largest exporters of agricultural products in the world [1].

As is known, foreign trade between countries in various forms have been known since ancient times. Throughout its existence, mankind has tried to improve its methods, forms, systems and controls. Study of the peculiarities of creation and functioning of bodies of state management in the sphere of foreign trade is essential to improve foreign economic activity of Ukraine in General and governments in particular.

It is to be noted that regulatory issues of foreign policy activity of the USSR explored Soviet scientists and modern domestic scientists, in particular, B.M.Babiy [2], V. A. Vasilenko [3], A. Zadorozhny [4], A. G. Kupchyk [5, pp. 817–831; 6, p. 27–29]. I. Yu. Strelnikova [7], P. P. Udovichenko [8] and other.

Certain problems of functioning of state bodies of the USSR in the sphere of foreign trade, in particular, the National Commissariat of Foreign Trade of the USSR (here in after – NCFT SSR), the office of the Commissioner NKVD of the RSFSR Council of National

Commissars of the Ukrainian SSR (hereinafter – UNCST at SNK of the RSFSR, the USSR or RSFSR Commissioner at SNK of the USSR), the office of the Commissioner NKVD Soviet of National Commissars of the USSR was considered in the works of V.G. Merchant [5, p. 817–831; 6, p. 27–29]. In particular, the author, exploring the legal basis for the functioning of the organs of the foreign policy of the USSR, analyzes the institutional and functional status of the foreign trade agencies of the USSR in 1919–1924 [5], and also organizational-legal bases of functioning of Control NKVD of the RSFSR of National Commissars of the USSR (1922–1924) [6]. But the constitutional-legal bases of formation of public administration in the sphere of foreign trade of the USSR in the first half of the 1920s remain unexplored.

So, the aim of this study is to identify the constitutional-legal bases of formation of public administration in the sphere of foreign trade of the USSR in the first half of the 1920s.

It should be noted that due to the difficult socio-political situation in the country caused by foreign intervention and civil war, normative-legal provision of activity of state bodies in the sphere of foreign trade in 1919–1920 was almost absent. Their activities are regulated, as a rule, legal acts of the Russian Federation, and normative acts of the USSR were adopted in 1921–1923, which basically duplicated the relevant provisions of the normative acts of the RSFSR.

According to the Constitution of the USSR, 1919 March 14, 1919, the Ukrainian socialist Soviet Republic (hereafter the Ukrainian SSR) was proclaimed «the organization of the dictatorship of the workers and the exploited masses of the proletariat and the poorer peasantry to defeat their age-old oppressors and exploiters, capitalists and landowners». Article 6 of the Constitution of the Ukrainian SSR 1919 it was assumed that «to the Central Soviet Power in Ukraine include: ... C) relations with foreign States, including the Declaration of war and the consolidation of harmony; ...» [9, p. 7], that is, de jure, the USSR had the right to be a participant of international relations, including in the sphere of foreign trade. However, as practice has shown, and the provisions of other legal acts, this provision of the Constitution of the Ukrainian SSR 1919 was not assigned to the USSR for direct participation in international trade relations. This is due, primarily, beginning the process of centralization of power. Another reason refers to the Ukrainian researcher A. G.Kupchyk, namely the insufficient level of development in the then Soviet Ukraine constitutional rights [5, p. 818].

According to article 7 of the Constitution of the Ukrainian SSR 1919, Central state authorities proclaimed all-Ukrainian Congress of Soviets of Workers, peasants and red army deputies; all-Ukrainian Central Executive Committee of Soviets (here in after VCCR, or Central); the Council of National Commissars [9, p. 6]. As the Supreme legislative bodies, they took the normative legal acts including those that regulate relations in the sphere of foreign trade. Thus, article 10 of the Constitution of the USSR of 1919 he established that «the Congress of Soviets is the Supreme authority of the Ukrainian Soviet Socialist Republic» [9, p. 6]. The revision of the Constitution of the USSR, 1925, the all-Ukrainian Congress of Soviets proclaimed the “Supreme authority of the USSR” [10, p. 152–153], at whose meetings have repeatedly discussed the questions of foreign trade.

In the Constitution of the USSR of 1919, was noted that the highest authority of the Republic in the period between all-Ukrainian Congress of Soviets was Central, as the all-Ukrainian Congress of Soviets determined the General direction of the government and all other organs of the Soviet power of USSR. To the exclusive jurisdiction of the Central Constitution of the USSR 1919 carried the election and the liberation of National Commissars and Chairman of the Council of National Commissars (*here in after* – the CPC of the USSR), the distribution of state revenues and duties between Central and local authorities, establishing the terms and procedure for the election of local councils, their internal organization and the relationships between them, and between them and the Central organs of the Soviet power [9, p. 7]. A number of other issues, provided for by article 11 of the Constitution of the USSR of 1919, in particular, on the borders of the Republic, relations with foreign countries, basics of the organization of the armed forces and socialist construction in the field of national economy, budget and the like, could decide as the all-Ukrainian Congress of Soviets and Central. In addition, in urgent cases, at impossibility of timely convening of the all-Ukrainian Congress of Soviets, Central was authorized to decide the question of declaring war and concluding peace. The competence of the Central Constitution of the USSR, 1919 related and other issues in the field of legislation and General management, with the exception only of those which were decided by the CPC of the USSR on General or special authority Central [11, p. 175–176]. Thus, the Constitution of the USSR in 1919, among the powers of the all-Ukrainian Congress of Soviets and the all-Russian Central Executive Committee affirmed the right of the USSR to enter

into relations with foreign States. However, analyzing the relevant rules, it is worth remembering the political, declaratory of the Constitution of the USSR, 1919.

According to article 1 of “Provisional regulations of the all-Ukrainian revolutionary Committee on the organization of Soviet power in Ukraine” dated December 22, 1919, the all-Ukrainian revolutionary Committee proclaimed on that was “at the head of the political and administrative authorities in Ukraine”. According to article 1 of the Decree of the all-Ukrainian revolutionary Committee “On the unification of the activities of the Ukrainian SSR and the RSFSR” of 27 January 1920, all decrees and orders of the USSR, concerning the activities of public authorities and affiliated institutions related to the agreement to merge the activities of the two republics, namely: the military, the Supreme Council of national economy, food, labor, social protection, transport, post and Telegraph, Finance, was abolished and replaced by decrees of the RSFSR [12, p. 10]. As rightly pointed out by the Ukrainian researcher S.Y. Vovk, this suggests that the interim authority had the right to cancel normative-legal acts adopted by the highest authorities that were created under the Constitution of the Ukrainian SSR 1919 [13, p. 16].

To guide foreign trade on 11 June 1920. National Commissariat of foreign trade of the USSR (*here in after* – NKVD USSR) was formed. His main duty was: “to manage foreign trade of the Republic, to ensure the exclusive right of the state to conduct foreign trade activities, control and protect this prerogative of the state” [14, p. 251].

The principle of centralization of state power was enshrined on 01 June 1919 with the signing by the governments of the USSR and RSFSR military and political agreement according to which it was together five National Commissariat of military Affairs, national economy, communications, Finance and labor. In accordance with the “worker-peasant treaty between the Ukrainian SSR and the RSFSR” of December 28, 1920 he joined the National Commissariat of post and Telegraph, foreign trade and the Supreme Council of national economy [6, p. 27]. So, NKVD of the USSR was liquidated and its functions were fully transferred to NKVD of the RSFSR.

In March 1921, the Office of the Commissioner of the NCVT at SNK of the RSFSR, the Ukrainian SSR was established. Decision of the CPC of the USSR of June 17, 1921, the Commissioner NKVD of the RSFSR of National Commissars of the Ukrainian SSR had the right to conduct export-import transactions only in foreign markets, however, it

was not allowed to produce goods for export for government orders on the domestic market [5, p. 819].

SNK USSR at its meeting in 27 July 1921, decided to enact on the territory of Ukraine decree SNK RSFSR “About the Commissioner NKVD in Ukraine and its bodies”, where, in particular, noted: “With the aim of implementation on the territory of the USSR ... the overall import and export plan, as well as to clarify the needs of the national economy of the USSR in foreign trade ... – in the National Commissariats of the Ukrainian SSR included the CNCFT on the rights of the National Commissariat, in which there shall be established the office of the Provedor NKVD in Ukraine” [15, p. 474–476; 16, ark. 23–25]. Consequently, the Commissioner NKVD of the RSFSR was part of the SNK USSR on the rights of the National Commissar, and under his authority included the regulation of relations in the sphere of foreign trade.

According to article 2 of decree SNK RSFSR “About the Commissioner NKVD in Ukraine and its bodies” to a negotiated solution of the issues attributed to the competence of the Ombudsman NKVD of the RSFSR of National Commissars of the USSR have formed a panel consisting of: the Commissioner, his Deputy and one member of the Board who were appointed prior written consent NCVT from SNK USSR and approved Central [15, p. 474]. The appointment of the individual National Commissars and the approval of the Commissioners of the National commissariats of the RSFSR (joint departments) belonged to the exclusive competence of the Presidium of the Central [17, ark. 4]. For example, the Board Authorized the National Commissariat of foreign trade of National Commissars of the Ukrainian SSR in 1922 were: CNCFT (Bron S.G.), his Deputy (Boev I. V.), member of the Board, Chairman of the Board Authorized the National Commissariat of foreign trade of National Commissars of the USSR (Saltanov I. M.), member of the Board (Polotsky O. A.), member of the Board, the Commissioner for the right Bank (Kolluk D. V.), member of the Board, the Commissioner of Odessa region (Artamonov M. K.) [18, ark. 19].

At meetings of the Board of UNCST was considered the most important matters within its competence, in particular, the export and import of goods, export of Ukrainian goods, especially the production of export goods and the like [19, p. 3].

Decree SNK RSFSR “About the Commissioner NKVD in Ukraine and its authorities” were fixed powers of an Authorized NCVT, in



particular, organization on the territory of Ukraine, Central and local institutions, trade missions of the USSR abroad, the management and supervision of their activities; implementation in Ukraine of all problems of nationalization of foreign trade, submission for registration to the National Commissars of the USSR decrees and regulations published by the Council of National Commissars of the RSFSR and concerned NCVT, supervision of their implementation on the territory of the USSR, and also “carry through the National Commissars of the legislation on foreign trade, taking into account local peculiarities”; the organization of reception of foreign goods, as well as storage, transportation and delivery of the Ukrainian goods which are exported abroad; 5) implementation of measures to increase export Fund, the inspection and supervision of the procurement of export goods and, if necessary, participation in harvesting and processing raw materials; 6) organization of work of the Board of external trade of Ukraine, the submission and approval of export and import plan of the USSR and others [15, p. 474–475].

In the course of activities Authorized NKVD of the RSFSR of National Commissars of the USSR issued decrees and orders.

In addition, for the execution of it's authorized, powers created by local authorities of foreign trade. So, according to the decision of the Central “On local authorities of the Commissioner” from 06 July 1921 No. 358, for the implementation of activities, UNCST and with his permission on the territory of Ukraine at the provincial and district Executive committees were formed the departments of foreign trade. The main task of local authorities of foreign trade was the implementation of all activities, orders, tasks and instructions of the Commissioner of Ukraine. The authority of the provincial Department of foreign trade were: a) clarification of export opportunities in the sphere of their activities; b) adoption of measures to strengthen the collection of the export Fund and the procurement of export products, if necessary – participation in such procurement and processing of raw materials; c) adopt measures for the protection and transportation of Foreign Trade; g) the adoption of measures to combat smuggling, guard the borders and the activity of customs institutions; g) economic survey of the provinces from the point of view of Foreign trade according to the special tasks of the Centre; d) informing the population and local economic bodies, conventions, meetings, etc., all activities of foreign trade; e) the organization and management of County departments; e) execution of instructions, orders and assignments Commissioner in

Ukraine [20, p. 421].

The powers of County departments of foreign trade were: a) determine the prepared opportunities and account of export of raw materials of the County; b) monitoring of procurement authorities in the field of procurement and export of raw materials; C) monitoring the accuracy of sorting, packaging and storage of goods destined for export; g) the fulfillment of all instructions, orders and assignments of the Foreign Trade [20, p. 421–422].

In accordance with the decision of the Central “On local authorities of the Commissioner” No. 576 of August 30, 1922, in connection with the education for export-import operations of Ukrainian state office for export and import, acting on a commercial basis, the Central, overriding the provisions of the “local authorities of the Commissioner” from 06 July 1921, liquidated regional and local Commissioners, and the implementation of field activities related to the conduct of foreign trade, where this is considered necessary Commissioner, handed over to the United UNCST. It was forbidden the intervention of local authorities in commercial activities offices of the Commissioner [21, p. 619–620].

In accordance with the decision of the Central “On foreign trade” may 11, 1923 No. 288 main trade agencies of the USSR abroad was proclaimed the trade representation of the USSR. Article 5 of said regulations Central it was assumed that the National Commissariats and other Central institutions of the USSR on the basis of the decision of the Ukrainian economic Council was given the right to have its agents or special representatives of trade missions of the USSR, operating in the prescribed manner [22].

According to article 8 of the said resolution, the Central National Commissariat of justice of the USSR and its organs were allowed to strengthen the repression against violators of state interests in the field of monopoly of foreign trade. UNCST, local authorities and commercial foreign enterprises were charged with the duty of personal responsibility of heads of these agencies, to prosecute Ukrainian citizens, private and government entities in the case of violations of foreign trade. In addition, UNCST obliged to submit monthly to the CPC of the USSR report on detected violation of the monopoly of foreign trade, and used the event [22].

From 16 August 1923, the Office of the Ombudsman of the National Commissariat of foreign trade of the RSFSR of National Commissars of the USSR was renamed as the Office of the Ombudsman of the National Commissariat of foreign trade of the Union of National Commissars of

the USSR [23].

In November 1925 the National Commissariat of foreign trade of the USSR and the National Commissariat of internal trade of the USSR are united in the National Commissariat of foreign and internal trade of the USSR [24]. According to this decree the Central and SNK of the USSR from April 28, 1926, on the basis of the enterprises of the National Commissariat of internal trade of the USSR and Office of the Ombudsman of the National Commissariat of foreign trade of the Union of National Commissars of the Ukrainian SSR was formed National Commissariat of foreign and internal trade of the USSR [25].

It is worth noting that reports on activities of UNCTAD necessarily discussed at the meetings of the Presidium of the Central Committee of the CP(b)U. for example, 606 March 1925, having heard the report on the activities of UNCTAD over the past year and work plan for the following, the Presidium of the Central Committee of the CP(b) noted the negative developments in the activities of Ukrainian exporters and providing recommendations for their elimination [26, p. 3].

Consequently, the activities of state bodies in the sphere of foreign trade of the USSR were regulated by the Constitution of the USSR in 1919, by decree SNK RSFSR "About the Commissioner NKVD in Ukraine and its bodies" approved by the resolution SNK USSR No. 399 of July 27, 1921, the resolutions of the Central "On local authorities of the Commissioner" No. 358 dated 06 July 1921 and No. 576 of August 30, 1922, "On foreign trade" may 11, 1923 No. 288, as well as the decisions and orders of the Commissioner NCVT at SNK of the RSFSR, the Ukrainian SSR, which were adopted in accordance with normative legal acts of the Russian Federation. The Constitution of the USSR, 1919 de jure affirmed the right of the USSR to enter into relations with foreign States, including foreign trade, but de facto, these powers are exercised NKVD of the RSFSR.

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**UKRAINIAN  
TRADING WITH FISH  
AND  
FISHERY/AQUACULT  
URE PRODUCTS**

**Introduction.** Global food problems induce humanity to create conditions of guarantee access to quality food in the optimal quantity. The fish production has important role for animal production segments with all infrastructure, processing, storage and marketing of fish products.

Ukraine organizes the market of fish products and aims to harmonize supply and demand for the benefit of both producers and consumers. Even though fish is not a major product for Ukrainians, still it is of significant importance in their nutrition.

Currently, there is no mechanism for realization of fish and fish products on Ukrainian domestic market. Functioning of the fish market

in Ukraine has been based on the budget funding. When the budget has exhausted, the government tried to drastically reorient a mechanism to self-regulating.

Today consumers get fish and fish products mostly through intermediaries. It has negative effect on the quality of fish and fish products, because of the lack of appropriate conditions for fish storage. During the resale the properties of fish and fish products are worsening.

Supply of fish to the domestic market from own production and the catch is 20 %, and imports – 80 %.

Market fish and fish products are dependent on imports.

In 2015 a total of 8 600 tons of fish, crustaceans, fish products and other aquatic invertebrates were exported from Ukraine in a total 17,7 million USD. This is 31 000 tones less compared to 2014 year when it was 39 600 tons and 42 800 tons less compared to 2013 when the export was 51 400 tons.

### **Fish consumption and market demand. Distribution and marketing of fish and fishery/aquaculture products**

Wholesale and retail fish sales depend on the consumer demand, which increases due to transition from consumption of expensive meat to the cheaper and healthy fish. Though the level of fish consumption in Ukraine has not reached the level of 1990 yet, it has increased significantly compared to 1992-1995 years.

The average annual rate of fish and fish products consumption justified by the National Institute of Nutrition (NIN) under the Ministry of Health of Ukraine is 20 kg per person.

The increase in consumption of fish and seafood was caused by the epizootics, particularly epidemics of chicken and swine flu. Increasing demand for fish might also be caused by popularization of a healthy diet.

The share of fish and fish products, according to statistics from 1995 to 2015 has increased four times from 0,13 % to 0,55 %. It indicates the rising of importance of fish in nutrition of Ukrainians. When consumption of fish and fish products by Ukrainians accounts to nearly 17 kg per person annually, the share of meat products exceeds 45 kg per person per year, and the one of dairy products exceeds 225 kg per person per year.

Since 1990 the consumption of fish and fish products in Ukraine has ranged and decreased from 17,5 kg in 1990 to 8,4 kg in 2000 and has increased to 14.9 kg in 2009. The lowest indicator was in 1994

amounting to 3.5 kg per person. The fish industry had to provide 922,8 ths. tons of fish products in 2009 in Ukraine with population of 46.1 million people but the indicator was only 211,2 ths. tons, which is 4.4 times less than required.

There are new fluctuations of fish and fish products on Ukrainian market in the last few years. Since 2010 there is a new decrease in consumption of fish and fish products (to 14, 5 kg annually per person, and **in 2015 to 9,9 kg annually per person** (fig. 2.1) according to the data of the State Statistics Service of Ukraine.

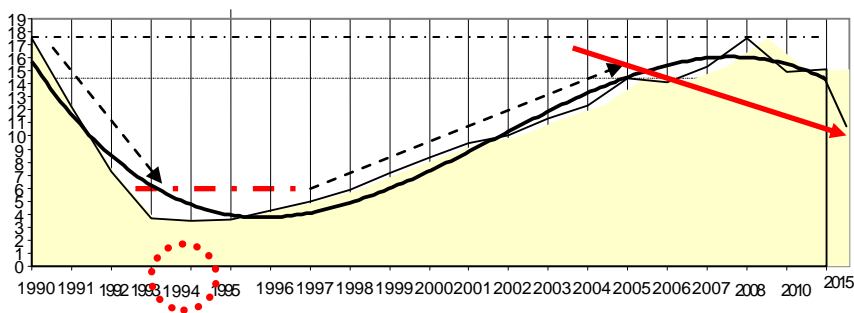


Figure 2.1. Consumption of fish and fish products in Ukraine per person, kg/year

The purchasing power of population was very low in 2015. The share of consumers buying frozen fish, filleted and other fish meat (including minced), fresh and chilled fish to save money have increased. Due to currency fluctuations and falling of population's solvency fish sales have slowed down by 50 %.

Though fish products are important, their share in the nutrition and in the family budget expenses are low and demand for such products is directly influenced by market prices. Ukrainians consume mostly fresh and frozen domestic fish that is not processed.

The following fish is in demand: frozen fish (merluccius, theragra, micromesistius, tilapia); smoked fish (bream, clupea harengus membras, capelin); fresh fish (common carp, crucian carp, atlantic salmon); canned fish; seafood (squid, octopus); dried fish (esox, gobies); caviar and caviar substitutes. Also a demand has sprat, esox, so-iuy mullet.

The common carp, bighead carp, grass carp have the biggest demand among the population among all the species of aquaculture products (fig. 2.2).

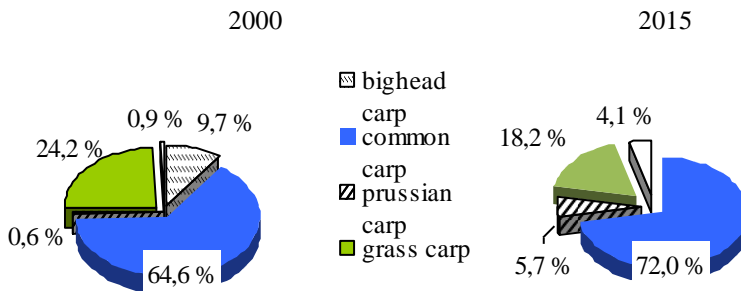


Figure 2.2. The species composition of freshwater fish, the most popular among the population of Ukraine (based on data from the State Statistics Service of Ukraine)

The leaders among the fluvial fish are: cyprinus carpio (10,6 %), bighead carp, grass carp (13,6 %) and prussian carp (5,1 %).

The increase of the consumption of freshwater fish was observed in 2014. Among these species there were: wels catfish – 75%, zander – 36 %, common carp – 11 %, bighead carp, grass carp – 14 %, bream – 8 %, prussian carp – 22 %.

The most popular sea-fish in consumption, caught in Ukraine in 2015, was anchovy, so-iuy mullet – 15,5 % from the total consumption of fish; gobies – for 13,3 %, clupeonella – 8,4 %, krill – 10,1 %.

There is a direct relation between the fish consumption with the density of urban population in any region of Ukraine nowadays. Thus, the indicator ranges from 15 kg per person a year to more than 17 kg per person a year in the following regions: Donetsk region (share of urban population is 90,4 %), Zaporizhzhya region (76,6 %), and Mykolaiv region (67,5 %). Contrastingly, the other regions of Ukraine consume from 8,8 kg per person a year to 11,6 kg per person a year in such regions as Zakarpattya region (share of urban population is 37,1 %), Ivano-Frankivsk region (42,9 %), Rivne region (47,5 %), Ternopil region (43,2 %). The exception is Kiev region, where the share of urban population is 60,4 %, whereas the fish and fish products consumption is nearly 19,5 kg. The consumption of fish and fish products in the Kiev region has reached the desired physiological rates of consumption per person, which is due to higher incomes and better supply of fish



products.

The nutrition of rural settlers is more varied, high-energy, has more fish protein compared to the urban dwellers, who consume more fresh fish, frozen fish, chilled fish, while in a rural settler's nutrition dried fish, salted or smoked fish prevails, which is associated with the traditions of their food.

The consumption of canned fish and premade fish products is higher in the cities than in rural areas because of the rapidity and ease of preparation.

The share of sea fish is more for urban residents, consisting of 28 % against 15 % for the rural settlers. Shrimps are consumed by nearly 4 % population of rural areas and by 1 % – in the cities. Consumption rates of laminaria are higher in the rural areas (3 %). Crab sticks' consumption is almost the same for both groups. Calamary, *mytilus galloprovincialis* and premade fish products are consumed only in cities, but their share is insignificant – 1 % for each species.

The majority of consumers prefer (by types of fish): fresh fish – 60 %, then frozen fish – 13 %, smoked fish – 12 %, salted fish – 8 %, canned fish and fish preserves – 3 %, fish jerky – 2 %. The frozen fish are consumed by 19 % of the population, smoked fish – 18 %, salted fish – 16 %, canned fish – 8 %, fish jerky – 7 %, fish preserves – 4 %.

The difference in consumption between the population living in the cities and villages is applicable only to frozen fish (the share of consumption of frozen fish in the cities is 23 %; in rural areas – 11 %) and smoked fish (24 % and 15 % respectively). The difference for other types of fish products is 1–2 %.

Fish and seafood are often bought in specialized stores – 30 %; at the market – 29 % (in particular it's applies to fluvial fish); at the supermarkets – 15 %; retail sales – 6 %; wholesale sales – 4 %; in pop-up markets – 3 %. Nearly 13 % of population prefers the self-caught fluvial fish.

To determine the frequency of consumption of different types of fish and seafood the following main types of fish have been selected: fresh fish, frozen fish, smoked fish, salted fish, jerky fish, canned fish, fish preserves, frozen seafood, seafood, crab sticks, laminaria.

Among people who prefer fresh fish, 58 % consume it several times a month; 18 % – several times a week, 14 % – several times a year, 6 % – on holidays and 4 % – every day.

Frozen fish is consumed several times a month by 54 % of respondents, 30 % – several times a year, 18 % – on holidays, 15 % –

several times a week, 1 % – every day. Smoked fish is bought a couple of times in a month by 44 % of respondents, 39 % – several times a year, 29 % – on holidays, 19% several times a week and 2 % – every day.

Salted fish is eaten daily by 4 % of consumers; several times a week – 18 %, several times a month – 46 %, several times a year – 33 %; on holidays – 9 %.

Frequency of fish jerky, canned fish, fish preserves and seafood consumption is almost the same within each product group: daily consume 1–4 % of the population, several times a week – 13–14 %, several times a month – 36–40 % several times a year – 44–47 %, on holidays – 11–19 %.

Percentage of consumers who buy preserves and seafood on holidays is the highest among these products – amounts to 18 % and 19 % respectively, since the preserves do not require additional efforts from consumers, they are very convenient as a festive meal and as fish snacks often bought with beer.

Frozen seafood, which includes crustaceans and frozen premade fish products, is daily consumed by 4 % of the population, several times a week – 18 %, several times a month – 62 %, several times a year – 16 %, on holidays – 5 %. A peculiarity of this product group is due to the fact that the half-finished fish products are the supplement for daily family menu; frozen crustaceans are often bought for beer.

Crab sticks is a product that has appeared on the Ukrainian market more than 10 years ago and has gained the wide popularity among consumers as a supplement for a festive table and as a product that has replaced fish and seafood in the nutrition of consumers. It explains the high share of customers which buy crab sticks on holidays – 31 %. Crab sticks are daily consumed by 3% of the population, several times a week – 22 % several times a month – 30 %, several times a year – 45 %.

Laminaria is daily consumed by 6 % of consumers, several times a week – 21 %, several times a month – 50 %, several times a year – 23 % on holidays – 47 %.

Ukrainian regional leaders in the consumption of fish are: Odessa region – 18,6 kg per person a year and Cherkasy region – 19,2 kg per person a year. The reason of leadership of the Cherkasy region is based on its location on the Kremenchuk storage reservoir, at the Dnipro River, the Ross River and the Sula River.

Analysis of the statistics data shows that the consumption of animal products (meat and meat products) in Zhytomyr, Vinnytsya,

Dnepropetrovsk, Kiev, Zaporizhzhya, Poltava, Kherson, Sumy, Chernihiv regions is two times more than that of fish products. In Volyn, Donetsk, Zakarpattia, Kirovohrad, Lviv, Luhansk, Ternopil, Kharkiv regions it exceeds the consumption of fish products three times more.

Therefore, one should pay attention to the factors affecting the level of consumption of fish and fish products in terms of administrative units of Ukraine.

The average highest monthly level of fish consumption per person statistics during the period from 1999-2015 years after processing official data is observed in Vinnytsia region (from 1,3 kg to 2,5 kg), Odessa region (from 1,7 kg to 2,6 kg), Kherson region (from 1,6 kg to 2,4 kg) regions and the lowest level of fish consumption – Volyn region (from 0,9 kg to 1,9 kg), Ternopil region (from 0,3 kg to 1,6 kg) Lviv region (from 0,7 kg to 1,7 kg).

There are 2 regions with the highest and the lowest fish consumption that are selected for analysis – Vinnytsia region (the highest fish consumption) and Lviv region (the lowest fish consumption). A unique situation have been discovered when Lviv region spent more expenses on food than Vinnytsia region, but consumption of fish were less (fig. 2.3, 2.4).

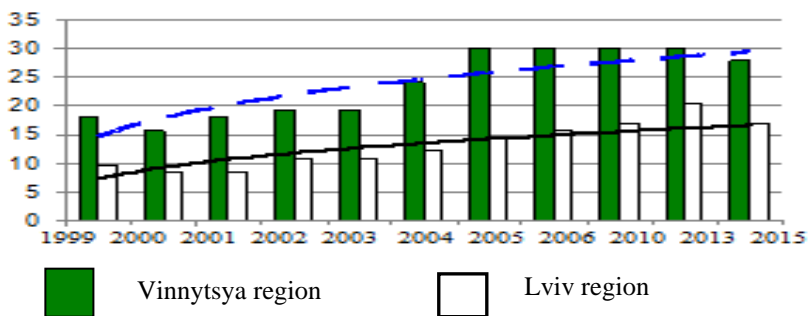


Figure 2.3. Dynamics of fish consumption in Vinnytsia region (the highest fish consumption) and Lviv region (the lowest fish consumption), 2015, kg/year

The reason is the availability of the water resources and regional peculiarities of the water bodies' locations. There are 4849 ponds with a total water surface area of 24,1 ths. hectares and of capacity about 248,0 million m<sup>3</sup> in Vinnytsia region; in Lviv region – 3055 ponds with a total

area of water surface of 9,1 ths. hectares and capacity about 115,2 million m<sup>3</sup>, which is less than the Vinnytsya region with its 1794 ponds, 15,0 ths. hectares of water surface and 132,8 million m<sup>3</sup> of capacity.

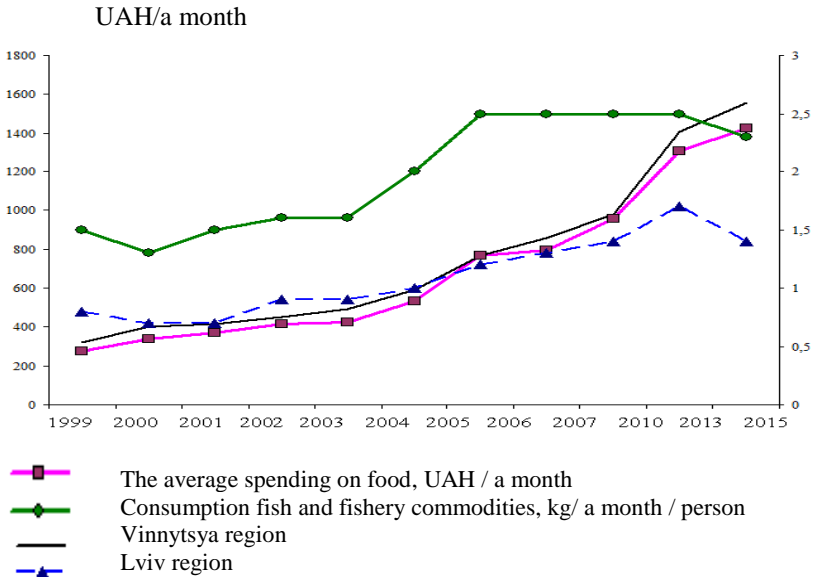


Figure 2.4. Dynamics of fish and fish products consumption per person in some regions of Ukraine, 1999-2015

The water reservoir has the same situation in 2015. There are 52 reservoirs with water surface area of 9,6 ths. hectares in Vinnytsya region, and there are 20 reservoirs with water surface area of 3,2 ths. hectares in Lviv region, which is 22 reservoirs and 6,4 ths. hectares of water surface area less. At the same time, the capacity of reservoirs is 293,0 million m<sup>3</sup>, including useful – 136,0 million m<sup>3</sup> in Vinnytsya region, and 67,1 million m<sup>3</sup> and 56,7 million m<sup>3</sup> in Lviv region respectively.

The prices of fish and fish products play an important part in consumption by administrative regions of Ukraine. The prices for fish and fishery commodities have increased by more than 50 % in Ukraine in 2015.

The prices of fish and fishery commodities have increased by 52,6 % according to The State Statistics Service of Ukraine in the distribution

network (excluding urban markets) during 2015.

In general, the increase of prices happened with sea products (186 %), canned fish in oil (176,7 %) and clupea (152,3 %).

According to the local territorial departments of the State Agency of Fisheries of Ukraine an average price for fish and fish products in urban markets has increased by 55,5 %.

The domestic fresh fish is the only product of mass consumption now. There is no need to have the certificate of origin for realization.

The current fish market is characterized by:

- increased imbalance between demand and supply of fish products;
- misbalance between the products quality and consumers' demands;
- accelerated growth of retail prices for fish and fish products under conditions with the lowering of their quality.

Ukrainian market of fish and fish products depends on the next factors:

- stability of the national currency;
- government policy on attitude to importers and exporters;
- inflation rates;
- increase of the minimum wage.

There are two versions of presence at market of the Ukrainian companies:

1). Suppliers bring the fish directly to the store themselves. It's a good solution for cities, but it isn't suitable for small towns. Mediators do not want to go for small orders.

2). Individual purchases at wholesale depots. Frozen fish come in boxes, so it is not difficult to take it to the store.

There are several wholesale markets of fish and fish products in Ukraine, such as «Stolychnyi» in Kyiv, «Shuvar» in Lviv, and «Hospodar» in Donetsk.

For example, sector «Fish and Meat» it «Stolychnyi» market in Kyiv includes 6 pools for live fish; freezers capacity of 1224 m<sup>3</sup>, the number of trading places – 108 m<sup>2</sup> - 8,72 m<sup>2</sup> - 18.54 m<sup>2</sup> - 2,36 m<sup>2</sup> - 8.

Domestic fish producers have an opportunity to purchase a block of bonds at the «Fish and Meat» sector that which is 10 bonds to 1 m<sup>2</sup> area (10000 UAN/m<sup>2</sup>).

Fisheries enterprises that are working in aquaculture and do not have bonds in possession are able to rent a space for up to one year, followed by filling of vacant space based on competition.

Rent can be reviewed after the expiry of the lease in this case.

There is a small number of specialized shops for fish and fish products. The research of assortment of fish products on the example of supermarkets «Dary moria» and «NOVUS» has revealed the following: the dominant fish species are marine species of fish and seafood. Among the products ready for consumption, preserves are represented by marine species only.

The level of dependence of the food market from import of fish and fish products is rapidly increasing. Ukraine has established a food market for foreign producers.

The market of aquaculture production in our country has some structure, its own characteristics, scheme of trade and trade specifics (fig. 2.5).

Fish production, including canned fish, was carried out by more than 150 companies in 2015 in Ukraine. The total assortment is around 3 thousand items. According to the statistics, 59,3 ths. tons of fish products, of which 55 % are canned fish, were produced in 2015 mainly from imported frozen fish or filleted fish and other fish meat (including minced).

The amount of fish products amounted to 35,9 ths. tons in 2014, showed a decline in production of fish products by 22 %. Production from Ukrainian fish mainly consists of the dried fish, fish jerky, smoked fish (marine fish: gobies, sprat, anchovy, sprattus; inland fish: bream, rutilus, Scardinius). Production of fish products in Ukraine in 2015 compared to 2013 has decreased almost 60 %.

It's connect with an annexation of the Crimea, where the large fish processing enterprises were located such as LLC «Sevastopolkyy» , LLC «Noviy», LLC «Proliv», LLC «Vostok», JSC «Trading House «Favorit». And the main power of the production of fish products were locate at the Crimea historicall.

The decrease in fish products production was affected by the Russian import ban on canned fish on 29<sup>th</sup> of July, 2014, which accounted for 80% (28.3 ths. tons) of total Ukrainian exports of prepared or canned fish and fish products in 2013.

Ukraine exported only 3.2 ths. tons of prepared or tinned fish in 2015 while this indicator was almost 35 ths. tons in 2013.

Currently Ukrainian producers are engaged in capacity building in the mainland part of Ukraine and the progressive reorientation on the markets of the European Union, Asia and other countries.

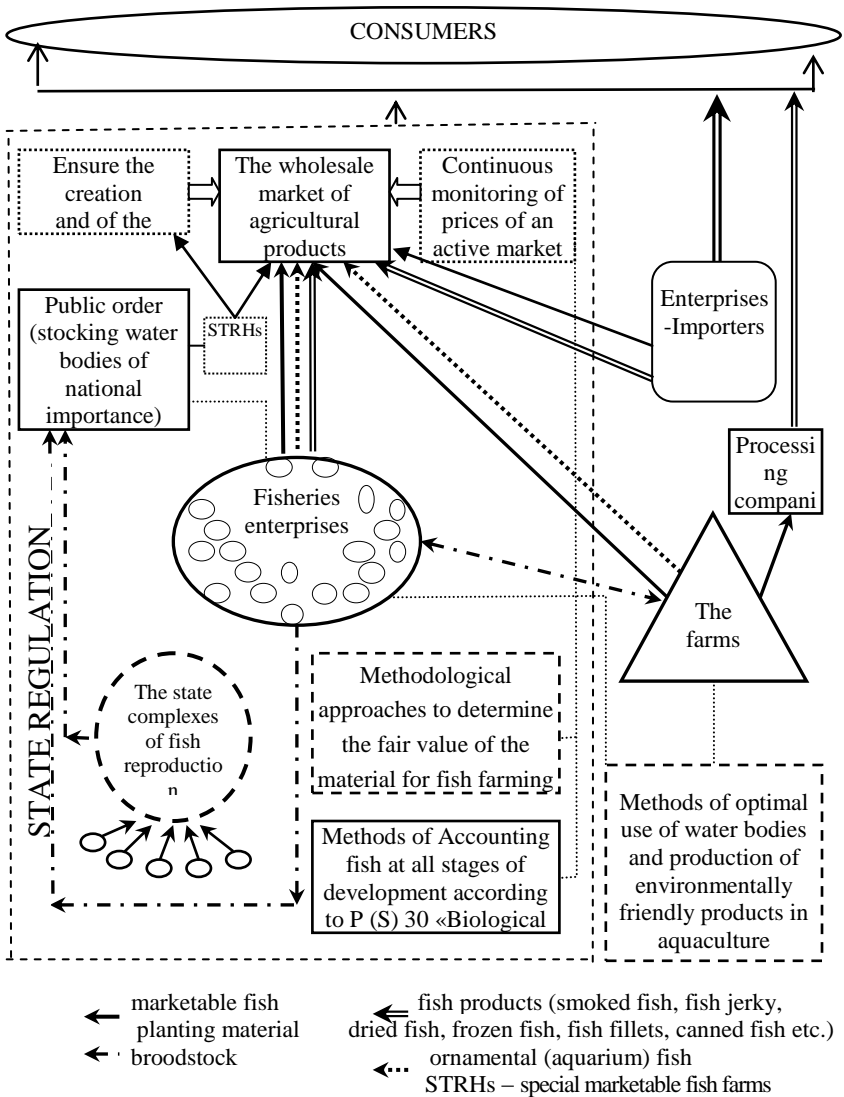


Figure 2.5. Scheme of aquaculture products market regulation

## Export and import of fish and fishery/aquaculture products

### Import

By 2015 annual imports of fish and seafood to Ukrainian market showed a tendency for growth, in particular, regarding fresh fish, chilled fish, frozen fish and some of its kinds in processed form – excluding filleted and fish meat, prepared or tinned fish; black caviar and its substitutes that are produced from other fish eggs.

The decrease observed in certain product subgroups – live fish, dried fish, smoked fish, crustaceans.

In 2015, the falling purchasing power of Ukrainians led to a significant decrease of fish and fish products imports (fig. 2.6).

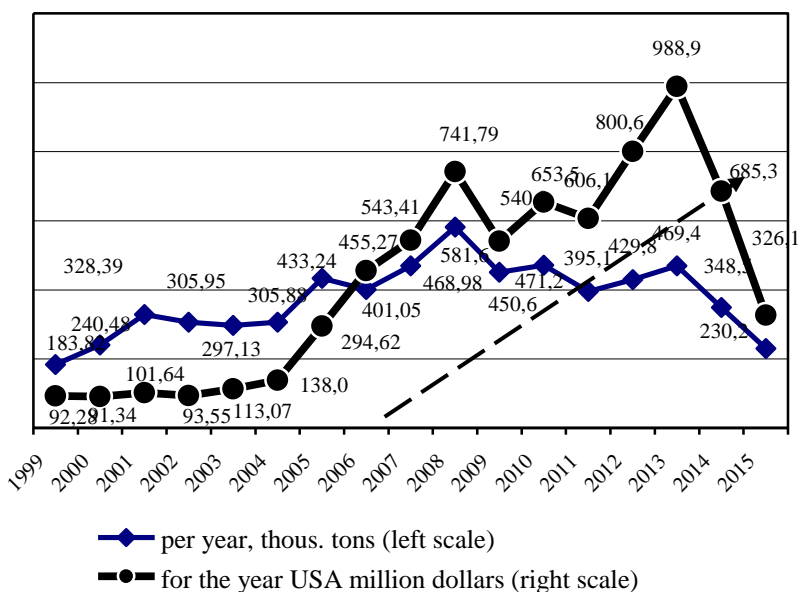


Figure 2.6. Dynamics of fish and fish products import in Ukraine (According to the data of The State Statistics Service of Ukraine)

In 2015 Ukraine imported 230,2 ths. tons of fish, fish products and other aquatic invertebrates totaling 326,2 million dollars USA, that which is 35 % less than in 2014 (348,4 ths. tons in the amount of 685,3 million dollars USA), and 50 % less than in 2013 (469,5 ths. tons in the amount of 988,9 million dollars USA).



The prices on imported fish products increased: sardinella and sardine (186 %), pink salmon (178 %) clupea (170 %). Prices for domestic fish (common carp, carassius, Far Eastern carps, bream, so-iyu mullet) have grown by 40 % - 50 %. The main reason for this increase is the economic situation and devaluation of Ukrainian hryvnia.

The following imported frozen fish is a traditional product for the population of Ukraine: clupea, merluccius, scomber, sardine, sprat, sprattus. In 2015 181,5 ths. tons of frozen fish, fish fillets were imported to Ukraine, which is 85 % of the total imports of fish and other aquatic invertebrates and finished products. Also caviar and its substitutes import amounted to 15,5 ths. tons of worth 0,2 billion of USA dollars; the import of fish, fresh or chilled, except for the filleted and other fish meat – 10,7 ths. tons of worth about 0,5 billion of USA dollars, fish fillets and other fish meat (including minced), fresh, chilled or frozen 13,1 ths. tons of worth 0.3 billion of USA dollars were imported in 2015.

The frozen fish was the most imported product in 2013 – 329,8 ths. tons, fish fillets and other fish meat (including minced), fresh, chilled or frozen – 48,6 ths. tons, canned fish, including caviar and its substitutes produced from caviar of other fish – 40,4 ths. tons, and chilled fish, fresh fish – 23,3 ths. tons worth nearly 0,9 billion dollars USA. That was 67,6 % more than in 2011.

The structure of commodity circulation in fish and seafood imports to Ukraine in 2013 was dominated by frozen fish (58,9 %), chilled fish, fresh fish (15,6 %) and fish fillets and other fish meat (including minced), fresh, chilled or frozen (10,4 %), prepared or tinned fish, caviar and its substitutes that are produced from caviar of other fish (9,7 %). These segments together held 94,6 % of the whole fish market (fig. 2.7).

The structure of the commodity circulation in fish and seafood imports to Ukraine in 2015 was dominated by frozen fish (86,3 %), chilled fish, fresh fish (0,5 %) fish fillets and other fish meat (including minced), fresh, chilled or frozen (6,2 %), prepared or tinned fish, caviar and its substitutes produced from caviar of other fish (6,3 %). These segments together held 99,3 % of total fish market (fig. 2.8).

According to the fig. 8 and table 1, import of frozen fish has reduced by 48,64 % in 2015. Imports of some fish species, by contrast, have grown - it is sprat, above all. Import of clupea, scomber, capelin has also increased. Amount of clupea imports was 7 ths. tons, scomber – 95 ths. tons, capelin – 1 ths. tons. Though Ukraine does not import pike perch. 82 % of consumed fish in Ukraine was imported at 2014. More than 90 % of fish imported in 2015 are accounted for fish, which Ukraine does

not have access to and which is extracted from waters of exclusively maritime economic zones of other states.

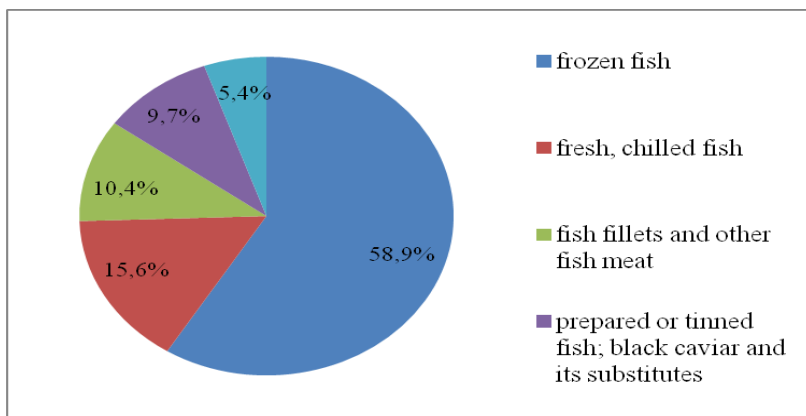


Figure 2.7. The structure of the commodity circulation in imports of fish and seafood to Ukraine in 2013 by net weight (According to data of The State Statistics Service of Ukraine)

Ukraine does not have the resource base of clupea, scomber, halibut, atlantic salmon and many other types of fish which the buyers are looking for.

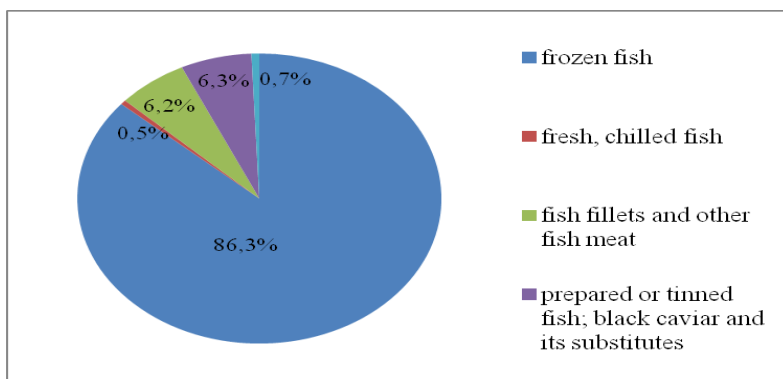


Figure 2.8. The structure of the commodity circulation in imports of fish and seafood to Ukraine in 2015 by net weight (According to data of The State Statistics Service of Ukraine)

Fish and seafood have been imported from more than 15 countries in 2013 and from more than 28 countries in 2015. Main importers are Norway (28,5 % of its value), that supplies frozen fish, fresh fish and chilled fish to Ukrainian market and Iceland (11,3 % of the total cost) with frozen fish, fish fillets and other fish meat (including minced). Imported fresh and chilled fish is by the most part from Norway (88,8 %), frozen fish – from Norway (22 %), USA (16,2 %) and Iceland (16,2 %) according to sub-segments of fish commodities.

93 % of Norwegian exports to Ukraine consist of fish and seafood, especially clupea, scomber.

*Table 2.1*

**Dynamics of imports of the main marketable groups of fish commodities in Ukraine at 2011-2015 (According to data of The State Statistics Service of Ukraine)**

Marketable groups	2011		2012		2013		2014		2015		2015/2014, %	
	ths. tons	1000 USD	ths. tons	1000 USD	ths. tons	1000 USD	ths. tons	1000 USD	ths. tons	1000 USD		
Fish, crustacean, mollusks and other aquatic invertebrates	346,8	505,4	382,7	687,6	415,3	863,4	307,2	593,8	210,4	289,8	68,5	48,8
Fish, fresh or chilled, excluding filleted and other fish meat	14,1	76,6	25,7	134,5	23,2	149,1	14,4	92,5	10,6	53,2	73,8	57,5
Fish, frozen, excluding filleted and other fish meat	273,2	313,3	302,6	430,1	329,8	562,2	244,8	383,4	181,4	196,9	74,1	51,4
Fish fillets and other fish meat (including minced), fresh, chilled or frozen	44,1	67,4	42,5	77,6	48,5	99,4	37,2	78,3	13,1	25,7	35,1	32,8
Prepared or tinned fish; black caviar and its substitutes	38,2	81,3	35,2	87,4	40,3	91,8	31,3	68,2	15,5	26,6	49,5	39,1
Total:	395,1	606,1	429,8	800,6	469,4	988,9	348,5	685,3	230,2	326,1	66,1	47,6

Theragra, salmonidae are coming from Russia. The other part of the imported sprat is proportionally distributed between Argentina, the Baltic countries, Spain, Canada, Russia, Vietnam and other countries. The delicacy types of fish are supplied by France, Italy and China.

The major producers that are supplying fish and seafood to Ukraine are from Norway (Marine Harvest AS Ice Seafood AS, Hallvard Leroy, Norway Royal Salmon, Nergard AS, Norway Pelagic AS, Egersund Fisk Group, CA Mordal Consulting), Scotland (Denholm Seafoods Ltd), Holland (Marine Foods BV), Iceland (Iceland Pelagic, Iceland Seafood ehf), USA (Pacific Seafood), Canada (Ocean Choice International Ltd), Russia (Flayfish, Rosrytorh), Belarus (Santa Bremor), Lithuania (Benko Servisas ).

Main importers at 2015 were the European countries – 162,8 ths. tons (70,7 % of the total imported fish); America – 32,8 ths. tons (14,3 % of the total imported fish); Asia – 11,8 ths. tons (5,1 % of the total imported fish); CIS – 9,1 ths tons (4,0 % of the total imported fish); Africa – 8,4 ths. tons (3,7 % of the total imported fish); Australia and Oceania – 3,3 ths. tons (1,5 % of the total imported fish) (fig. 2.9).

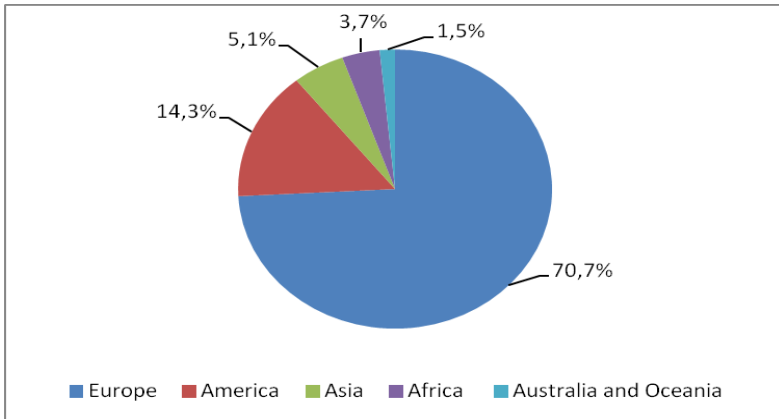


Figure 2.9. Import structure by the main fish importers in Ukraine at 2015 (According to the data of the State Statistics Service of Ukraine)

The amount of imported salmon to Ukraine in 2014 comes down to 976 tons, which is 48 % less than in 2013.

In 2015 3 624,8 tons of rainbow trout were imported to Ukraine. In 2015 rainbow trout from Norway was imported in the amount of 991,2

tons, 337,4 tons – from Denmark, 132,1 tons – from Chile, 73,7 tons – from Turkey (tabl. 2.2).

Table 2.2

**Trout import in 2015**

	Total		Fresh or chilled		Frozen		Fish fillets and other fish meat (including minced), fresh, chilled or frozen		Dried, salted or in brine	
	tons	1000 USD	tons	1000 USD	tons	1000 USD	tons	1000 USD	tons	1000 USD
Total	3624,8	15206,4	3176,1	14083,7	436,8	1031,2	5,4	18,7	6,5	72,8
Belarus	5,5	63,8	-	-	-	-	-	-	5,5	63,8
United Kingdom	46,4	157,8	-	-	42,5	143,9	4,0	13,9	-	-
Denmark	337,4	1 096,5	300,7	956,8	36,7	139,7	-	-	-	-
Estonia	8,1	6,0	-	-	8,1	6,0	-	-	-	-
Italy	30,4	149,4	30,4	149,4			-	-	-	-
Norway	2991,2	13118,1	2771,3	12720,8	217,4	383,2	1,5	5,2	1,0	8,9
Finland	0,2	0,1	-	-	0,2	0,1	-	-	-	-
Turkey	73,7	256,7	73,7	256,7	-	-	-	-	-	-
Chile	132,1	358,3	-	-	132,1	358,3	-	-	-	-

Ukraine has bought the filleted fish and other fish meat (including minced) for 25,8 million of USA dollars in 2015. It is 67,2 % less than in 2014. The top three importers with almost equal percentage were Vietnam (6,6 million dollars USA, 25,5 %), Norway (6,25 million dollars USA, 24,2 %) and Iceland (5,37 million dollars USA, 20,8 %).

Ukraine has introduced a 10 per cent import duty in February, 2015. Fish and fish products were included to the list of additional taxable goods. The introduction of an additional fee has not justified itself, since the budget revenues have declined. Ukrainian fish market has suffered the most. Even despite the fact that importers have changed approaches and started to import cheaper fish products instead of more expensive (the average price of imported fish for the I half-year of 2014 is 2 dollars USA, in 2015 it is 1,3 dollars USA), the fish imports have still reduced by 40 % in 2015, even more than in 2014.

The present situation of imports fish and fish products is due to the

lack of specialized fleet, the processing industry, the quota in international waters and poaching. Besides, the cost price of Ukrainian fish import is higher than that of imported fish, which is why Ukrainian fish products are losing.

### Export

The amount of exports of filleted fish and other fish meat (including minced) was 1,8 million USD in 2015. The largest importer of Ukrainian fish meat is Germany (4,7 million USD). The export of frozen fish was 247 200 USD; mainly to Latvia (57 tons), Turkmenistan (18 tons), Moldova (49 tons). It was 22,6 % less than in 2014 (fig. 2.10).

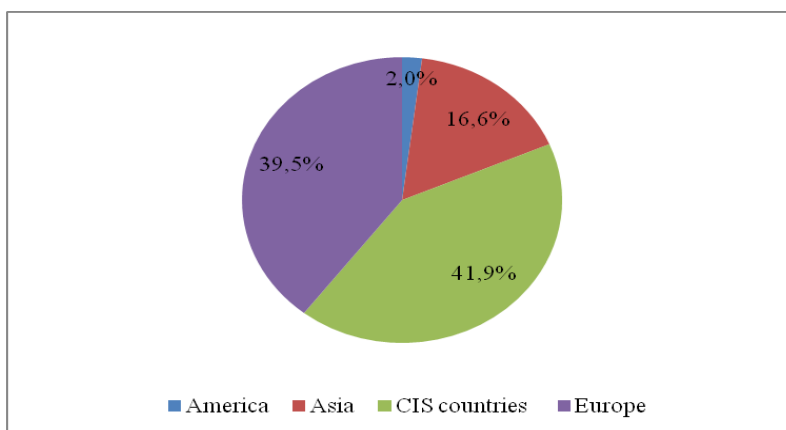


Figure 2. 10. Structure of Ukrainian fish exports to the other countries in 2015 (According to the data of the State Statistics Service of Ukraine)

Ukraine mainly exports fresh fish, chilled fish, canned fish to Russia and Kazakhstan (directly from fishing areas). The amount of exports in all the groups has declined in 2015 (tabl. 2.3).

Export of fresh fish, chilled fish amounted of 2,4 ths. tons at the cost of 2062,9 ths. of USA dollars and was made by «SRDK» directly from the area of fisheries (Atlantic region, near to Guinea-Bissau).

Ukraine exports only 98 tons of frozen fish to Europe excluding filleted fish and other fish meat priced at the 92 ths. of USA dollars, fresh fish, chilled fish excluding filleted and other fish meat – 0,4 tons priced at 1,7 ths. of USA dollars, filleted fish and other fish meat (including minced), fresh, chilled or frozen – 1864 tons priced at 8 ths.

of USA dollars, crustaceans with or without panzers, fresh, chilled, frozen, dried, salted or in brine - only 260 tons priced at 269 ths. of USA dollars.

*Table 2.3*

**Dynamics of export of the main marketable groups of fish commodities in Ukraine in 2011-2015 (According to the data of the State Statistics Service of Ukraine)**

Marketable groups	2011		2012		2013		2014		2015		2015/2014, 1000 USD	
	ths. tons	1000 USD	ths. tons	1000 USD	ths. tons	1000 USD	1000 USD	ths. tons	1000 USD	ths. tons		
Fish, crustacean, molluscs and other aquatic invertebrates	18,9	19,6	18,2	18,7	16,4	20,8	21,9	27,4	5,3	12,9	24,6	47,4
Fish, fresh or chilled, excluding filleted and other fish meat	18,1	15,7	15,4	13,3	13,6	11,7	20,2	17,2	2,6	2,2	13,1	12,9
Fish, frozen, excluding filleted and other fish meat	0,2	0,1	2,1	1,1	1,6	1,1	0,2	0,3	0,2	0,2	88,2	78,1
Fish fillets and other fish meat (including minced), fresh, chilled or frozen	0,3	2,9	0,5	3,7	0,7	6,6	1,1	8,7	1,8	8,1	156,5	92,2
Prepared or tinned fish; black caviar and its substitutes	29,9	39,5	37,3	46,2	34,9	42,9	17,6	20,3	3,2	4,5	18,6	22,5
Total	49,1	61,5	55,7	66,1	51,4	65,1	39,6	48,6	8,6	17,7	21,9	36,6

In 2015 the production of trout was 247 tons, the export of trout amounted to only 5,5 tons for a total amount of 62,9 ths. of USA dollars (tabl. 2.4).

The volume of exports of freshwater perch fillets (fresh, chilled or frozen) in 2011 totaled 216,3 tons, in 2013 – 752,6 tons, in 2014 – 1392,5 tons (tabl. 2.5). All produced perch (1392,5 tons) Ukraine exports to Europe.

Table 2.4

**Trout exports in 2015**

	Total		Fresh or chilled		Frozen		Dried, salted or in brine	
	tons	1000 USD	tons	1000 USD	tons	1000 USD	tons	1000 USD
Total	5,8	62,9	0,032	0,400	0,120	0,600	5,694	61,900
Azerbaijan	0,0	0,3					0,012	0,300
Armenia	0,2	2,4					0,180	2,400
Georgia	0,4	7,4					0,424	7,400
Turkey	0,0	0,1	0,011	0,100				
Japan	0,0	0,3	0,021	0,300				
USA	4,1	34,8					4,115	34,800
Panama	0,1	0,6			0,120	0,600		

Ukraine exports to Germany 90 % of the perch. It is 996,4 tons worth 4126,1 ths. of USA dollars. To Denmark 151,8 tons worth 624,3 ths. of USA dollars are exported, to Lithuania – 110,6 tons worth 488,5 ths. of USA dollars, France – 90,8 tons worth 561,5 ths. of USA dollars, Poland – 24,0 tons worth 159,6 ths. of USA dollars, the Netherlands – 18,9 tons worth 58,1 ths. of USA dollars.

Table 2.5

**Export of pike perch fillet, tons**

Years	2010	2011	2012	2013	2014	2015
Exports of freshwater perch fillets (fresh, chilled or frozen)	182,5	216,3	477,7	752,6	1127,3	1392,5

Falling of effective demand due to devaluation of hryvnia has influenced the reduction of import segment. It is time for import phase-out – saturation of the market by fresh, affordable Ukrainian fish products (fig. 2.11).

The price on fish and fish products are shown in tabl. 2.6.

Ukraine has conditions to grow European plaice, rainbow trout, Coregonus, channel catfish, perch, starry sturgeon, and American paddlefish. Not only traditional types of fish, but also those that are currently imported can be produced. Among them there are gilthead sea bream, European sea bass, and tilapia.



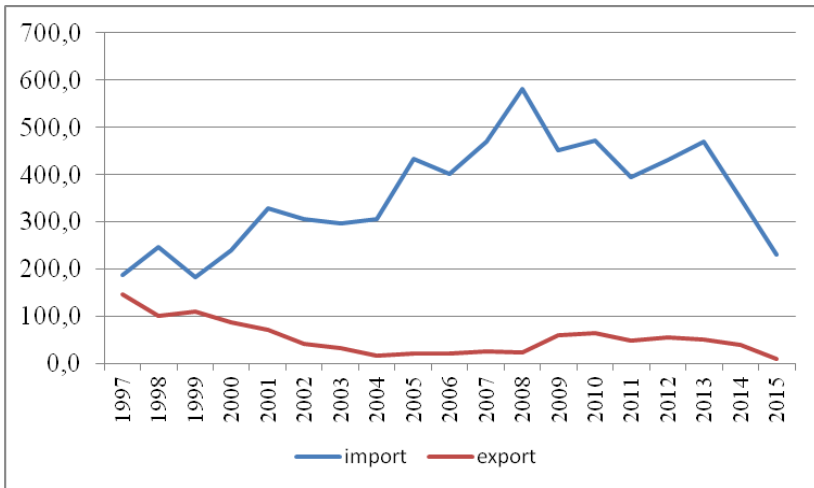


Figure 2.11. Dynamics of export and import (According to the data of the State Statistics Service of Ukraine)

Table 2.6

**An average price on fish and fish products in 2014-2015, per 1 kg/dollar USA (According to the data of the State Statistics Service of Ukraine)**

Marketable groups	2014		2015		2015/2014, %	
	Export	Import	Export	Import	Export	Import
Fish, crustacean, mollusks and other aquatic invertebrates	1,25	1,93	2,41	1,38	192,7	71,3
Fish, fresh or chilled, excluding filleted and other fish meat	0,85	6,41	0,84	4,99	98,1	77,9
Fish, frozen, excluding filleted and other fish meat	1,31	1,57	1,16	1,09	88,5	69,3
Fish fillets and other fish meat (including minced), fresh, chilled or frozen	7,29	2,10	4,29	1,97	58,9	93,6
Prepared or tinned fish; black caviar and its substitutes	1,15	2,18	1,40	1,72	121,4	78,9
Total	1,23	1,97	2,05	1,42	166,8	72,0

The demand for aquaculture products has the least realization in Ukraine.

An actual capacity of the market in 600-650 ths. tons might be able to increase by 30-40 % due to the intensive development of aquaculture.

**Conclusions.** Recommendations for Ukrainian fish trading development (**actions**):

- need to develop a program for import phase-out of fish products. Ukraine does not have the resource base of clupea, scomber, halibut, atlantic salmon and many other types of fish which the buyers are looking for. Besides, there are conditions to grow European plaice, rainbow trout, Coregonus, channel catfish, perch, starry sturgeon, and American paddlefish. Not only traditional types of fish can be produced, but also those that are currently imported (gilthead seabream, European seabass, tilapia);

- need to expand assortment of fish products through the position of the lower price group;

- need to open an exchange trade for fish and fish products;

- need to focus in two fields: modern refrigerators and processing enterprises. The need for modern refrigeration storage capacity for today is about 100 ths. tons of simultaneous storage. Fishing in Ukraine is seasonal, that is why it needs the required freezing and refrigerating storage for increasing production capacity;

- to satisfy the growing demand in fish products produced with the new technologies, with fresh materials, packed in convenient packaging and in demand in products that do not need long cooking: filleted fish, fish steaks, surimi (crab and fish sticks);

- to establish appropriate regional distribution centers, preferably with large fisheries or fish-extraction and processing enterprises that is facilitating the interactions with producers;

- to develop an infrastructure that is significantly decrease the prices for consumer market, and an ability to save the large amounts of products will enable to operators of fish market obtain additional incomes;

- need to establish packing and packaging of finished products and semi-finished fish products;

- need to establish of local-level enterprises with mainly small-scale wholesale sales warehouses with a view to approach maximizing fish production to areas of consumption and provide for the needs of urban and rural districts;

- have to improve the quality of smoked and salted fish, as some entrepreneurs use the shavings to make smoked fish but not timber, without tar;

- need to extend the network of specialized fish stores;

- have to inform the consumers about the place of production and placing additional information, for example, recipes for fish dishes;

- have to organize the advertising campaign including the assortment's range that has expanded and has deepened by yet unseen species of fish in recent years;

- have to provide an educational work with consumers through the media and TV;

- need to supply the companies-providers by specially equipped vehicles for transportation of fresh fish;

- to reform the domestic fish market should pay attention on potential and demographic trends in a particular region, the distribution and level of regularly incomes, the business climate and the level of regional competition;

- have to assess the real situation of the supply and demand balance for decision the measures to protect the domestic market;

- provide enough information to local producers as to fish market situation so that they can use it to their advantage;

- Ukrainian market is still a developing one. A great number of fish and seafood is imported every year; as a result there is a big competition for the local producers with the supermarket chains;

- the main feature of aquaculture sector is that there are a lot of small-scale producers/enterprises with less than five workers. That kind of structure can be obstacle in the development of the market, since its competitiveness is pretty low;

- the aquaculture sector is undiversified both in the area of species composition of aquaculture objects and in the area of products on the market. That is why investments for the introduction of new aquaculture objects are necessary, as is the increase the value of existing capacity on the national level;

- there are several enterprises in Ukraine that are experimenting with the production of aquaculture objects and use of the new technologies;

- it is necessary to invest into already existing capacities for their modernization. Special attention might be drawn to specific aspects, especially to the segment of commercial cultivation of carps for the investors to consider the possibility of investments into this segment;

- there appears to be the lack of investments because the issue of

ownership right is still legally unregulated, especially when it concerns the land and the old once state aquaculture farms and buildings.

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## Chapter 3

# PROBLEMS AND PROSPECTS OF DEVELOPMENT OF INTERNATIONAL BUSINESS

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## PROBLEMS AND PROSPECTS OF THE DEVELOPMENT OF INTERNATIONAL BUSINESS

At the beginning of the XXI century, international business has become so comprehensive and pervasive phenomenon of modern civilization, that it is necessary to mention that complex phenomenon of the global economy unambiguous definition seems almost impossible. Intensive development of integration and globalization processes of the world economy was the major factor for enhancing economic relations between countries, improving the international business mechanisms.

For better understanding the processes that are happening in the international business nowadays, it is necessary to analyze its historical development.

1. The era of commerce (1500-1850). Commercial colonial goods in Europe are a powerful and influential force predetermines more than 300 years, the development of the main kinds of international business. Such a business, especially in the XVI-XVIII centuries, is very risky, as it was associated with the perilous journey by sea over long distances.

2. The era of expansion (1850-1914.) At a time when Europe is strongly industrially developed colonial empire finally took shape and structure. All this, as well as industrial production volume made the turn civilized nations of the foreign trade in goods in the extraction of raw materials and other promising in terms of the economy, branches of international business.

3. The era of concessions (1914-1945.) This period is characterized by a change in the role of the largest firms that operated in the colonial trade. These large firms' concessionaires became independent micro-economic, which carried out a variety of functions such as retail,

manufacturing, healthcare, transportation, education, and even the police. These functions are often implemented not only in the workers' residence, but also in the neighboring areas.

4. The era of nation-states (1945-1970). Analyzing this era, there are two main areas of international business development. First – this is the positive direction of the formation and development of new powerful countries that have inherited from the era of concessions rather developed economic base, a frame structure and a process device. The second – the negative direction of obtaining colonial economic development deficiencies, ranging from the use of only one of the product etc.

5. The era of globalization (since the 70-ies. until nowadays). Period of strong global progress and development of international business is a revolutionary in the field of technological change, and then by the economic, political, social. [1, p. 303]

Globalization is the economic international relations have covered almost all the nations of the world, and each of these countries to a greater or lesser extent dependent on international business serious financial losses.

In the period of globalization and internationalization it is actual to analyze the main features of international business:

1. Get in international business profits achieved through the use of cost-effective management of business operations, the benefits go beyond national borders

2. Entrepreneurs tend to use more economic opportunities resulting from: Resource peculiarities of foreign markets, capacity, legal characteristics of foreign countries, the specifics international political and economic relations governed by the respective forms of interstate.

3. International Business considerably variation depending on the level of internationalization of the axis of “national business – multinational business” includes the stages of growth of this level: from one-time deliveries to the foreign market to a developed structure of transnational companies (TNCs), for which R & D, production and distribution are areas covering the entire globe, covering dozens of countries and hundreds of levels.

4. As a result of the internationalization for any business becomes as accessible as a global business service that is completely independent of nationality and focused only on the economic efficiency package a variety of services ranging from research to financial and from the transport to the selection of international teams, which allows us today

to make the most of business opportunities.

5. Accounting business cultural factor, a set of requirements and restrictions imposed by the culture of the country to those who are engaged in it (or her) business, this problem is acute enough very different culture of the company's home country and the country of its existence.

6. The global nature of the international business is its most important feature: it covers the global system of information exchange business, the global financial markets, the global structure of technological innovation and so a result of moving from level to level of internationalization increases the value of how this trait manifests itself in this business, then there is the efficiency of the business is determined using globalization.

7. International Business – a system of professional knowledge is fundamentally a higher level than is available in any national (domestic) business

8. International Business incorporates the best national samples, all the best in the world

9. Information – the main strategic resource, and adaptation – the main strategic weapon of International Business

10. The fundamental difference between international businesses from a national assessment is to reverse the domestic situation: negative trends in the economy (or some of its branches) may be the Inonu international firm in a different way, because they are able to open the company additional opportunities to business.

11. In contrast to the domestic competition, international business can feel the support of his government in the fight against competitors in many hidden forms. [2, p. 393]

Therefore it is necessary to mention, that current stage of international business development is characterized by profound changes in its entire system. The essential feature of it becomes globalization, implying greater interdependence and interaction of different spheres of activity in the field of international business. In connection with the process of globalization, no one phenomenon in society, no matter what the nature of it – economic, political, legal – can not be considered in isolation place.

During the last period of time in the business international community qualitatively changed the conditions of the functioning of business systems, resources, competition and the management tools. The development process requires a constant search for qualified

professionals with knowledge of international business and international law. The correct formulation of the question about the influence of international law on the organization, management, international business is the source of its effective development.

Today the lion's share of medium and large companies actively compete in the international legal field, which requires solutions to many problems posed by reality. One of the most significant issues that arise during the development of the modern international business is the problem of the legal properties – effective legal support business. This problem can be solved by referring to professional management companies or other third-party consultants. However, in this case, we should not exclude the potential mismatch risks, arbitrary decisions, termination of activities, etc. And in business, as you know, winning the one who saves time, relying on his own professional training

Defining the purpose of the economic activities of enterprises, we can confidently say that the main motive here is to maximize profits, which the company can achieve only if the effective use of human resources, the organization of business contacts, the ability to carry out negotiations in order to conclude the most favorable international contracts. It is clear that a key role in the organization of these processes owned by the employees. As the fundamental factor of the effective activity of the enterprise, the key to company prosperity, employees should qualitatively carry out the work within the framework of their professional activities, to receive additional education, as well as continuous or "continuation" of education (in the terminology of international educational systems, such as the USA, France and others.)

In addition, a special need for the development of enterprise employees feel that if it is exporting its products and is focused on achieving international standards in the sphere of production and the quality level of products. The differences in the development needs of employees are determined by the peculiarities of national educational systems, content and level of education in selected countries, with which the company has to face in the international activity. These characteristics should be systematized in the future to take into account. Differences in behavior and adaptive capacity depend not only on the organizational culture of the host country, but also culture-defined features of his native country. In addition, it is necessary to take into account the diversity of national traditions in the development of management staff workers. [3, p. 367]

According to these traditions, there are different models of



development:

- Japanese (Elite Cohort Approach);
- German model (Functional Approach);
- Anglo-Danish model (Managerial Development Approach).

Each model is characterized by an individual approach to recruitment, identification of potential, career planning, as well as related content development. Widespread in recent decades in many industrialized countries have received staff assessment centers. They are designed to help organizations in the selection of workers who will be able to work effectively in management positions.

There are three main objectives, which are designed to solve the evaluation centers:

1. Assessment of the management capacity of candidate (skills, experience, skills, personal and professional qualities);
2. The selection of managers with the highest level of administrative capacity;
3. Determination of the candidates for each individual training program aimed at developing the identified skills or to eliminate the identified deficiencies. May be established as an independent assessment centers and assessment centers at large enterprises, firms, or organizations that are divisions of personnel service. [4, p. 552]

Mechanisms of development and adaptation of personnel working on both Russian and foreign companies, require increased attention on the part of the administrative board, exercising human resource management. Proper social and professional adaptation of employees working in the field of international business contributes to the quality of knowledge and skills of international business, building plants to achieve the main goal of the company in the current period or in the long term

In the international business, using various tools to compare countries in connection with the available alternatives. These tools are:

- 1) scan method environment (environment scanning) – a systematic way to assess environmental conditions, based on the processing of information on the different countries of the world;
- 2) the parameters of the grid are the tool that allows you to: a) identify acceptable and unacceptable conditions for business; b) rank the country on significant variables;
- 3) matrix “opportunities – risk”, by which a firm can: a) select the indicators and determine their statistical weight; b) to assess each country by a statistically weighted indicators; c) displayed on the chart

options with unequal scale operations; d) reflect on the chart the expected changes in the position of countries;

4) matrix “attractiveness of the country – the company’s competitiveness” indicates compliance with the company's products in a particular type of product from country to country. This can be illustrated by the example of “Ford”: in relation to the sector of tractors firm uses a matrix of this type. On the vertical axis, reflecting the attractiveness of, the country ranked the top down on the grounds of appeal in their sales or production of tractors; on the other axis, ranked competitive position of companies in this field from country to country

After analyzing the main principles and ideas of the development of international business it is important to come up with the causes. The first group consists of the following reasons: increased competition in domestic markets, due to the increase in the number of entrepreneurs, the limited effective demand; relatively small domestic markets (taking into account the population, the extent of the territory, etc.); limited economic resources, including natural, material, labor, technological, financial, in the national economy; inadequate national legal system governing private enterprise; uneven socio-economic development of the countries of the second group are the following reasons: the continuous development of productive forces, scientific and technological development (RTD), including in the communications system (transport, communications, information, etc.); the formation of large corporations, banks have huge industrial, commercial, scientific, technical, financial resources; liberalization of foreign trade policies of the countries of the world community, the formation of “open economy” in most countries.

Of course, the international business is not easy for TNCs in terms of coordination and problems of implementation strategies: to consider and elementary difference in time zones, and different cultural contexts in different countries of operation, and, of course, different political and economic conditions of doing business. However, the complexity of the international business adequate opens up opportunities and prospects for global expansion, including political leverage pas host countries. [5, p. 474]

In this context, the three sources of competitive advantage for international companies are:

1) improving the efficiency of operations due to globalization (as the minimization of costs through the placement of the structural divisions of the company in the most favorable for this country, and due to

economies of scale in production volume capacity);

2) multi-national flexibility (quick adaptation to the conditions of the host countries, the transfer of the best results for all transnational structure);

3) accumulation and transfer of experience on a global scale (global learning and the use of different methods of doing business in different countries).

It should be noted that all three of the above factors it is impossible to use both: the highly centralized management structure that improves the efficiency of the entire organization, lost its multinational flexibility, while too much decentralization although it ensures flexibility, but complicates the transfer of information and experience on methods of conducting business on a given national market to other entities located abroad. Thus, for international companies important point is the right choice of strategic alternatives of doing business associated with optimal management structure.

It identifies four possible options for the implementation of international business strategy within the company, which operates in foreign markets:

1) strategy of duplicating the business model (International Strategy);

2) multilocus (multinational) strategy;

3) the global strategy;

4) transnational strategy.

Strategy duplication business models (international strategy) involve the use of a company on the foreign markets of the strategy, which it normally uses in his own country. The reason for this choice can be a successful performance of the domestic market as well as the initial stage of international business, where the company has no sufficient experience to be based on other strategies. An example of this kind of activity can serve as the company Daimler-Benz, initially focused on the high-yield segment of consumers in Germany and an excellent reputation in its domestic market.

Multilocus (multinational) strategy implies a set of relatively independent subsidiaries, each of which serves a national market. In this case, the company has good opportunities to adapt their products and marketing campaigns and methods of production of goods (services) for the maximum satisfaction of customer needs, which differ in their preferences. A typical example of such a company is a Swiss Nestle, which has a decentralized structure and broadly diversified product

range, adapted to the specific needs of consumers in different countries (for example, in Switzerland and Western Europe, the main focus of the production is done on the milk chocolate is preferred by most consumers, and the Russian market, the company also successfully promoted a dark bitter chocolate, the ruling Russians).

The global strategy is typical for companies perceive the whole diverse world as a single market. In this case, the focus is on the production and sale of standardized products (services) that meet the requirements of the majority of consumers around the world. For global companies are characterized by centralized management and control, as well as taking advantage of economies of scale (here comes the expansion of production and marketing, are highly effective structural units, united by a common marketing and advertising campaigns, as well as the unity of production processes). A good illustration of global companies are Boeing (one aircraft model, say, the most massive Boeing-737, for airlines from different countries and continents), or mobile device manufacturers, such as Apple, Samsung, Nokia (one basic model of phone and software to it for various national markets).

Finally, a transnational strategy combines the advantages of increasing the efficiency of operations due to globalization (as in global companies), and the benefits of empowerment of local management subsidiaries (as multilocus companies). This problem is solved by an informal approach to the centralization or decentralization of authority and responsibility-sharing between the most efficient and flexible units. An example of a company using a transnational strategy is Microsoft. although the development of new software products is carried out in the United States, responsible for their sale is transferred to the place, in the relevant foreign operations, better familiar with the national characteristics of different markets (for example, along with basic English language Windows version of the program released its version of the main languages of the world, adapted to the language features of different countries)

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However, if we look at examples of the most successful and competitive companies or individual entrepreneurs, in varying degrees, their high market position will depend on the national specifics of doing business in the base country of residence of the global economic entity. Thus, describing the competitive global business, it is impossible to ignore the specific components of the national competitive advantages that make a company or an individual entrepreneur successful not only in domestic but also in the global market. Accordingly, referring to the global competitiveness of the business, you need to pay attention to the competitiveness of countries, which represent a global business entities.[6,p.344]

American aerospace company the Boeing – a recognized world leader in the number of aircraft sold (in 2012 customers were delivered 601 aircraft against 588 of its nearest competitor – the Airbus company) – put emphasis on new “ship in its strategy to retain global competitive position in the passenger aircraft market dream” Boeing-787 Dreamliner, featuring innovative design and high fuel efficiency. With a brand new aircraft the company was going to consolidate its position in the segment of transport over long length of lines (more than 10000. Km), the only competitor which is the Airbus-A380. It should be noted that it is globalization, which is expressed in the increase of tourism and

business travel over long distances, it contributed to the fact that Boeing engaged in the development model 787. The first customers of the new aircraft become world's leading airlines – United, All Nippon Airways (ANA), Japan Airlines (JAL), Qatar Airways, which has already started its operation. Buy Dreamliner going to Qantas, Air New Zealand and “Aeroflot”, to put it on the line ultra long length. Nothing seemed to portend failure, and competitive Boeing in the world market consistently worse (it was promoted not only innovative aviation technology, but also the general state of the world market of civil aircraft, which is significantly affected by the strengthening of the euro, favoring the orders is Boeing, and stable high prices jet fuel, initiating the purchase of aircraft by the airlines with low fuel consumption). However, in early 2013 Boeing expect a major failure fraught with weakening global competitive position.

As a result of operation “Dreamliner” revealed numerous structural defects of the new aircraft, not all of which were easy “childhood diseases” innovative liner. The main failure of the aircraft proved its innovative power equipment – lightweight lithium-ion batteries, which have become the basis for the design of architecture. That’s the problem with batteries (unexplained fire in flight, and parked at the airport) have caused serious incidents with the Boeing-787, due to which the flight data of aircraft at the insistence of the US and Japanese aviation regulators in January 2013 were terminated. It is expected that Boeing loss from the failure of its main project decades range from 125 million to US \$ 5 billion although the lower limit of the financial losses. This Lager less than the price of one “Dreamliner” (it by catalog value is about \$ 200 million.), But the biggest the threat lies in the fact that the Boeing-787 may permanently ban from the nearest possible to the emergency landing of the airport for more than 180 minutes of flight, that closes the Dreamliner route over the ocean on long-distance routes (for example, Melbourne – Houston).

At the same time the position of the nearest competitor – Airbus as a result of the failure of the Boeing “Dreamliner” strengthened. Airbus-A380 in late January 2013 immediately rose by 3.5% to almost 280 million dollars, the cost of the catalog, and it more robust design allows the aircraft to be flying up in the air the nearest airport without restrictions of time [4].

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### **MANAGEMENT OF BANKING RISKS WITH FOREIGN CAPITAL**

The actuality of the concept of the risk and its management is caused by changes in banking business and the complexity and increase of technological systems. The main reasons of changes in banking business are the following: market globalization, competition increase and intensification of legal maneuvering in this sphere. The reasons stated above influence the risk situation in two ways; on one side, they increase the risks, on the other side, they create new possibilities to manage risks.

Management of banking risks is the process of identifying, evaluating and monitoring the risks positions, and taking into account interconnections between different categories of risks.

The research objective is to define the ways of increase of effectiveness of management of banking risks in commercial banks with foreign capital, implementation of scenery analysis as an instrument of management of portfolio of credit bank risks.

Obtained results and their novelty involve the development of

practical recommendations in improvement of management of banking risks; the program of management of banking risks, the use of new software, which will help to optimize risks management and the possibilities to use the scenery analysis as a management instrument of portfolio of credit banking risks have been suggested.

A. Smith used the risk theory to explain the tendencies of norms of income in different economic spheres. However, later, A. Smith made a conclusion that professions with high level of risk guarantee more high salary than professions with low level of risk [12].

The issue of risk was started to develop within classical ideas suggested by J. S. Mill and N. U. Senior. The scholars defined the interest of the risk as a part on invested capital, salary of capitalist and pay for risk as a compensation of possible losses connected with business activity in the structure of businessperson's income.

The theory of risk developed in neoclassicists. Similar to classics A. Marshal divided income into salary for managers, the interest on capital and pay for the risk. He considered the risk is a business contribution and it is suggested only as probability of losses.

As opposed to neoclassicists, J. M. Canes affirmed that the risk is a part of value connected with possible expenses caused by unpredicted changes of market prices, too much wear or risk because of catastrophes [5]. The peculiarity of Canes theory is that he emphasizes the financial risks.

American economist F. Knight suggested principally new interpretation of risk. On his opinion, the risk is not simple material losses but the consequence of indifference of income. F. Knight concept was the first step to develop a modern theory of financial risk, the main goal of which is optimization of risk functions.

The problems of the risk are much paid attention at modern stage of the development of economic knowledge. The quantity of Nobel prizes for scholars-economists, who investigate the risk shows about it (K. J. Arrow – 1972, M. Friedman – 1976, J. Tobin – 1981, M. Allais – 1988, C. L. Sholes, R. K. Merton – 1997, D. Kahneman – 2002).

The risk is an activity connected with overcoming of indifference in the situation of inevitable choice in the process of which is the possibility to define quantitatively and qualitatively the probability to achieve the result, failure and impact error.

The risk is an action done under the conditions of choice with the hope to have a good result when in case of failure there is a threat to be in worse situation comparatively with that one before the choice [6].



The risk is uncertainty concerning possible losses that is unpredicted shortage of value because of the realization of the threat, which caused the losses. Riskiness is a condition, which can create or increase (decrease) the possibility of losses [8].

We consider the risk should be defined as uncertainty concerning some event in future, besides the risk is both negative and positive phenomenon in economic context.

The analysis of available in literature definitions of concept “banking risk” (tabl. 3.1) shows that the majority of them is similar and differences are in chosen approach to the understanding of the essence of the risk in general (correspondingly to the stated above overview of the genesis of interpretation of the given economic category). The concept of “banking risk” has a financial character and it is found to be in the form of possible results of the risky situation. Among this, the concept “banking risk” is considered wider than financial aspects of its show in active norm and legal acts of Ukraine. In these acts, banking risk is defined as an opportunity to have losses in case of unfavorable conditions [16].

*Table 3.1*

**Overview of the definitions of the concept of “banking business”**

<b>Author, source</b>	<b>Definition</b>
1	2
L. Bondarenko [3]	The possibility to take rational or irrational management decision in the frames of which a probable qualitative or/and quantitative estimation of the factors as results can be done, to get one of three economic results: positive (profit), zero or negative (loss)
M. Heretovskyy [20]	Risk to lose because of specific banking operations made by credit institutions
V. Hamza [4]	Possible (potential or real) threat for bank’s interests
Yu. Mishalchenko, I. Crolli [9]	Probability for a bank to lose its costs, inobservance of planned income or additional costs as a result of planned financial operations
H. Panova [10]	Risk or possibility for a bank to lose during some undesirable events
V. Podchesova [11]	Reflect indifference connected with competitive struggle between banks and other participants of a market, what influence a stable financial circulation and change of the volumes of financial resources of a bank

*Table 3.1 (continued)*

1	2
S. Prasolova, S. Kozmenko, F. Shpyh, I. Voloshko [7, 13]	Valuable show of possible event causing financial losses
L. Prymostka [14]	Probability to get not enough income or decrease of market value of capital of a bank because of unfavorable influence of external or internal reasons
V. Sevruck [15]	Indifferent result of banking activity and possible unfavorable consequences in case of a loss
M. Fastovets [19]	Probability to get less income than it was expected, decrease of assets value
K. Uvarov [18]	Possibility of some events can cause a negative influence on the level of capital or income of a bank

There are different risks for banks depending on time and place, external and internal conditions influencing them, ways and methods of analyzing risks.

Successful activity of a bank depends on chosen strategy of risk management. The goal of the process of banking risks management is to restrict or minimize because it is impossible to avoid them at all. Banking risks management is directed to support to get a corresponding reward for taking risks. The exception is for unvalued risks according to which there is no correlation between their levels and the size of reward of a bank (tabl. 3.2) [1].

Quantitative estimation of the risk level is an important stage of the process of management, which have to include estimation of a real risk and define the limits of the allowable risk for some banking operations, organizational subdivisions and financial institution as a whole. At the same time, it is necessary to estimate risks of mastering new markets, banking products and directions of activity.

Monitoring of risk is the process of functioning of a regular independent system of estimation and control of risk with the mechanism of feedback. Monitoring is conducted owing to information reports of structural subdivisions and individual officials, internal and external audit and analytical activity of specialized bank services. Report within monitoring supports a feedback for managers and provides detailed total information. Such information helps to analyze current activity and to take managerial decisions.

Table 3.2

**Strategic concepts of management of banking risks [1]**

<b>Characteristics of a risk</b>	<b>Concept</b>	<b>The goal of a concept</b>
Financial (price and not price risks)		
Risks concerning correlation between their level and size of the award of a bank	Risk management	Optimize correlation between “risk and profit” for two possible variants: 1. Maximize income for the given level of the risk; 2. Minimize the risk for support of the given level of income
Functional risks (legal risk, risk of reputation, strategic risk, operational and technological risk)		
Risks concerning no correlation between their level and size of a bank’s reward	Minimization of the risk or its avoiding	Decrease the risks to some limited level trying to decrease losses

The system of limitation is used to manage risks increasing the level of financial security. Limitation is consciously taking risks. To manage own position from the portfolio of financial instruments is to set limits for the volume of portfolio and its structure in the context of markets, instruments, eminent, maximal sizes of losses (the point of the closeness of position) as to the portfolio as a whole also to separate types of papers etc [2].

Another instrument of management of risks is a diversification as the means of decrease of total inclination of the risk by means of the distribution of costs between different assets, the prices of which are not correlated or not enough correlated. Diversification gives the opportunity to decrease maximally possible losses during one event, however, the quantity of types of the risk increase, which are need to be under control.

Available approaches to estimation of financial stability of banks differ by their composition of factors, which are taking into account, the system of indices, which characterize components of financial stability, luminal indices etc. Besides, existing methods are used for banks and do not allow to all participants of market to give an objective true estimation of the stability of the development of each bank and banking system in general.

Rating agency “Expert-Rating” confirmed a long-term credit rating

of bonds of Alfa-Bank of Ukraine of series M, N, O, P at the level “uaAAA” according to a national scale. A bank or a separate debt instrument with rating “uaAAA” is characterized by the highest solvency comparatively with other Ukrainian debtors or debt instruments [30].

The bank is a participant of Deposit Insurance Fund and fundamental member of worldwide pay systems IPS Visa Int. i MasterCard Worldwide [30].

The activity of private joint-stock company “Alfa-Bank” corresponds to the strictest international clear requirements. The bank is competitive at national and foreign markets; it has stable management and qualified staff, what was emphasized by leading world bank institutions. According to the newest information date by 01/02/2017, which can be found on site of Association of Ukrainian Banks, private joint-stock company “Alfa-Bank” is on the following places among other banks of Ukraine:

*Table 3.3*

**Assets and obligations dated by 01/02/2017 (million, hryvnya) [29]**

№	Bank	Date of registration	Assets	Specific gravity (%)**	Balance capital	Obligations
	Total		571775.01	100.00	63602.84	507939.57
1.	PRIVATBANK	19/03/1992	215573.86	37.703	11544.51	204029.35
2.	REIFFEISEN BANK AVAL	27/03/1992	55579.70	9.721	10785.39	44794.31
3.	SBERBANK RUSSIA	15/06/2001	47543.21	8.315	3745.45	43797.75
4.	ALFA-BANK	24/03/1993	41170.55	7.200	3315.31	37855.25
5.	UKRSOTC BANK	27/09/1991	36987.13	6.469	8603.73	28383.40
6.	OTP BANK	02/03/1998	24599.46	4.302	2618.17	21981.29
7.	PIVDENNYI	03/12/1993	20473.21	3.581	2094.97	18378.24
8.	ING BANK UKRAINE	15/12/1997	15634.29	2.734	3814.95	11819.34
9.	PROKREDIT BANK	28/12/2000	11819.51	2.067	1299.47	10520.04
10.	KREDOBANK	31/03/1992	10841.06	1.896	1147.19	9693.87

Therefore, having analyzed the resource base of Alfa-Bank we can make the following conclusions:

- the resources base is enough diversified according to the sources of attracted costs, it makes a bank more stable to factors of external influence;
- in the structure of attracted resources, medial and long-term investments prevail supporting a high level of the bank liquidity;

- the value of attracted resources of a bank is low enough owing to the volume of costs available at current accounts of clients.

Financial result of a bank is the final index of the effectiveness of its activity. It has different indices according to which it can be made conclusions concerning success of some subdivisions of the bank and its activity in general. The place of a bank is defined according to the data of the financial result among other banks of Ukraine (tabl. 3.4).

*Table 3.4*

**Financial result dated by 01/02/2017 (million, hryvnya) [29]**

№	Bank	City	Financial result	Profit statute capital (%)	Profitability of assets (%)
	TOTAL		-413.451		
1.	REIFFEISENBANK AVAL	Kyiv	713.317	11.590	1.283
2.	ING BANK UKRAINE	Kyiv	76.961	10.524	0.492
3.	APEKS-BANK	Kyiv	64.768	21.376	26.251
4.	OTP BANK	Kyiv	55.796	0.902	0.227
5.	KREDOBANK	Lviv	36.794	1.636	0.339
6.	PROKREDIT BANK	Kyiv	24.570	2.937	0.208
7.	SBERBANK RUSSIA	Kyiv	20.684	0.166	0.044
8.	VIES BANK	Lviv	14.199	3.381	0.372
9.	EXPRESS -BANK	Kyiv	10.091	4.056	0.796
10.	ALFA-BANK	Kyiv	3.524	0.029	0.009

At the beginning of 2016, in the journal Forbes Ukraine, it was published the rating of the biggest banks' activity in Ukraine. On the first five places, there were Sitibank, ProKredit Bank, Reiffeisen Bank Aval, Kredi Agricole Bank, ING Bank Ukraine is at "A" a high level of activity. Alfa-Bank is at "B" medial level in rating (tabl. 3.5) [28].

To define the possibilities and threats of external surrounding, it was used the following indices: the influence of crisis; the state of the market of banking services; competition; promotion of innovations at the market (tabl. 3.6.)

Having analyzed advantages and disadvantages of the bank, its possibilities and threats, some types of strategies of management, minimization and liquidation of disadvantages and optimization of the bank's activity are suggested.

Table 3.5

**The rating of viability of the biggest banks in Ukraine, 2016 [28]**

Bank	Sufficient capital	Quality of credit portfolio	Support and risks of owners	Profitability of bank activity	Liquidity	Regular payments	System meaning of a bank	Total	Rating*
1	2	3	4	5	6	7	8	9	10
Sitibank	3	4	4	4	4	4	2	3.70	A
ProKreditBank	2	4	4	4	4	4	1	3.50	A
Reiffeisen Bank Aval	2	1	4	2	4	4	4	3.35	A
Kredi Agricole Bank	2	3	4	2	4	4	3	3.35	A
ING Bank Ukraine	3	2	4	4	2.5	4	2	3.30	A
UkrSibbank	1	3	4	2	3	4	3	3.05	B
KredoBank	2	3	4	4	2	4	1	3.05	B
UniCredit Bank (Okrsootsbank)	3	1	3	1	3.5	4	4	3.0	B
Oshchadbank	1	1	4	2	2.5	4	4	2.95	B
OTP Bank	3	3	3	1	3.5	4	2	2.90	B
Ukrzazbank	3	2	2	2	4	3	3	2.80	B
Bank Pivdenny	2	3	1	3	4	4	2	2,80	B
Bank Vostok	1	4	1	4	4	4	1	2.80	B
PrivatBank	2	2	1	3	3	4	4	2.75	B
Megabank	2	4	2	3	2	4	2	2.65	B
Diamantbank	1	3	1	3	4	4	1	2.60	B
Ukreximbank	1	2	4	1	1	4	4	2.55	B
PUMB	2	2	1	2	3	4	3	2.50	B
Universal Bank	2	1	3	2	2	4	1	2.45	B
Alfa-Bank	1	3	3	1	1.5	4	3	2.40	B
Sberbank Russia	1	3	1	2	1.5	4	4	2.25	C

*Table 3.5 (continued)*

1	2	3	4	5	6	7	8	9	10
Fidobank	3	2	1	1	1.5	4	1	1.95	C
Bank Khreshchatyk		2	1	1	3	4	2	1.95	C
VTB Bank	1	1	1	1	1.5	4	3	1.90	C
Prominvestbank	2	1	1	1	1	3	4	1.80	C
Bank Kredit Dnipro	1	1	1	1	1.5	4	1	1.70	C
Platinum Bank	1	3	1	1	1.5	2	1	1.40	D

*\* The level of viability: A – high, B – medium, C – satisfied, D – low  
Calculations: Forbes*

1. Strategy of liquidation of disadvantages owing to possibilities. The main disadvantages are a considerable level of differentiation of profitability of business in different regions of Ukraine.

2. Strategy is directed on the reduction of disadvantages to minimize a negative influence of external threats. In this situation, a bank should mobilize its potential to have a leading state at the market.

3. Strategy is directed on the use of existing possibilities owing to disadvantages of a bank. This variant of strategy should be directed on the constant widening of range of banking products, increase of the level of the quality of service in front offices, the development of branch and trade net of a bank in regions.

4. Strategy of protection from threats owing to advantages. Nowadays, at Ukrainian market of banking services, the threats are connected with increased competition on the part of big foreign banks, which are at Ukrainian market and swallow up national banks.

In general, strategic alternatives revealed during analysis do not contradict goals and tasks of Alfa-Bank. The most of them reflect possible ways of achieving strategic goals of a bank. The government of the bank does practically not examine strategies providing the liquidation of external threats.

The developed strategy by the bank does not take into consideration the development of interaction between clients, personnel, necessary transformation, adaptation and other aspects of internal surrounding. That is why, conducting SWOT analysis allowed to form the whole range of strategic alternatives and reveal some drawbacks of the strategy of the development of Alfa-Bank.

Table 3.6

**Matrix of SWOT analysis of private joint-stock enterprise “Alfa-Bank”**

<b>Advantages</b>	<b>Disadvantages</b>
<ol style="list-style-type: none"> <li>1. The possibility of additional capitalization of a bank owing to a parent company.</li> <li>2. The developed net of branches and departments, their favorable location.</li> <li>3. Openness before clients and partners.</li> <li>4. Wide customers’ base.</li> <li>5. Professional staff and high level of technical and technological support.</li> <li>6. A bank is a member of international pay systems.</li> <li>7. Access to international markets.</li> <li>8. New technologies of banking transfers.</li> </ol>	<ol style="list-style-type: none"> <li>1. Banking products oriented on corporate business.</li> <li>2. Decrease of trust to a bank during crisis period.</li> <li>3. A high part of administrative costs.</li> </ol>
<b>Possibilities</b>	<b>Risks</b>
<ol style="list-style-type: none"> <li>1. Revival of economic activity during post crisis period.</li> <li>2. Increase of the population solvency.</li> <li>3. Gradually renovation of trust to banks.</li> <li>4. Widening of the activity of medium and big business abroad.</li> <li>5. Renovation of building sphere.</li> <li>6. Social direction of the policy of the government.</li> <li>7. Increase of the level of pension and salaries, decrease of arrears of wages.</li> </ol>	<ol style="list-style-type: none"> <li>1. Strengthening of the influence of political conflicts on the economy of Ukraine.</li> <li>2. Possibility of the second wave of crisis because of economic instability in Italy, Spain and Greece, which branches of banks are on the territory of Ukraine.</li> <li>3. Increase of tax pressure.</li> <li>4. Increase of the real level of inflation, unemployment.</li> <li>5. Weak development of exchange market.</li> <li>6. Increase of requirements of NBU.</li> <li>7. Decrease in population and high level of migration.</li> </ol>

The government of Alfa-Bank determines the credit risk as losses because of nonfulfillment, fulfillment not in time or not complete by the debtor of his obligations according to the conditions of the agreement.

According to the results of investigation, the following conclusions can be made: Alfa-Bank as an active participant both international and national currency market.

Alfa-Bank supports the volume of the capital at high level but the profitability of the capital is at low level. Nowadays, the strategy of the development and the main goal of the bank is to increase income effectively and improve the structure of income in the bank.



The bank implements the complex system of management of risks according to the procedures of evaluation and management of financial risks within banking company ABH Holdings SA (ABHH).

Credit portfolio of Alfa-Bank is concentrated in the most developed regions of Ukraine and in two most popular economic branches – trade and production. The quality of credit portfolio became worse and it was influenced by external and internal factors. In medium and long-term periods, the bank is inclined to increase of credit risk and problematic debt. The mechanism of management of portfolio credit risk is built on adopted principles following the rules of Law of Ukraine.

Normative and information support of the process of management of credit risk supports all levels of management with the necessary information. The process of management of portfolio credit risk predicts the following: identification of factors, evaluation, the choice of the method of minimization and monitoring.

The program of management of risk is a complex document depicting the process of the development and correction of the common procedures of management of risk.

The development of such program is made on two stages.

The previous stage of the development of the program of management of risk is introducing with information about the problem. It gives the opportunity to take necessary decisions before the main stage and develop the program of management of risk.

The principles of management of risks are interconnected with methods of management. To chose concrete methods of management (protection of risks, refusal from them, taking risk, transformation of risk), it is necessary to know information about financial possibilities of a bank and take into account the common strategy of the bank. The characteristics of risks and possible methods of management were shown in tabl. 3.7.

Expected result from realization of the program of risk management can be defined according to indices of maximum possible losses before and after conducted measures. Disadvantage of such evaluation is that it does not take into account the size of losses during implementation of the program of risk management. The minimum losses can be after some ways of overcoming risk that is their decrease can be after different sizes of investments. This factor should be taken into account choosing optimal variants of anti crisis measures for Alfa-Bank.

The bank should take the following methods during the minimization of credit risk: analysis of solvency of a debtor or eminent of bank stock; diversification; limits establishment; requirements of support of credit.

Table 3.7

**The characteristics of risks and possible ways of management [8]**

<b>Method of management of risks</b>	<b>Probability of realization of risks</b>	<b>Extent of possible losses</b>	<b>Risk homogeneity</b>	<b>Quantity of analogical risks</b>
1.Prevention or refusal from risk	High	Large or very large	Homogeneous, heterogeneous	Single, mass
2.Taking risk	Not high	Not large	Homogeneous, heterogeneous	Single, mass
3.Risk management	High	Not large	Homogeneous, heterogeneous	Single, mass
4.Decrease of size of losses	Not high	Large	Homogeneous, heterogeneous	Single, mass
5.Insurance	Not high	Large	Homogeneous, heterogeneous	Single, mass
6.Self-sufficiency	Not high	Large	Homogeneous, heterogeneous	Single, mass
7.Method of transformation of risk different from insurance	Not high	Large	Homogeneous, heterogeneous	Single, mass

Alfa-Bank does not use software to optimize the analysis of possible risks and search of ways to avoid them or take.

To define risks using special programs, simulation model of an enterprise is often built.

Such programs are called the systems of simulation modeling. The most famous are the following: MATLAB, AnyLogic, Aimsun, Arena, Business Studio, Plant Simulation, GPSS (General Purpose Simulation System), Simplex 3 and many others. Some of the stated above are composite ones, they have their own object-oriented languages to describe the model and behavior of its separate elements. Simulation system Crystal Ball produced by Oracle Company is on special place among software. It is a superstructure for common table processor Excel. Besides its main task – conducting simulation calculations, the system Crystal Ball allows doing optimization tasks and making predictions under indifferent conditions and risk. It is based on technical standards of consecutive modeling using possibilities of visualization and animation.

Having investigated the credit activity of Alfa-Bank and the system of management of portfolio credit risk it was revealed that the level of problem debt is high and grows. Such situation is caused by external and internal factors in relation to the bank of factors. Correspondingly, increasing

indifference needs innovations in methods of evaluation and management of credit banking risk. Scenery analysis is one of such instruments, which is actual in last decade for both regulators and banking institutions.

Therefore, using scenery analysis the bank solves two important tasks: firstly, it evaluates the size of losses in credit portfolio during unfavorable development of events; secondly, it evaluates the quality of own methods of management of portfolio credit risk. The algorithm of methods of scenery analysis predicts some stages.

To evaluate the stability of credit portfolio to quick changes of factors defining its quality and possibility to generate the profit under new conditions, modeling of stability of credit portfolio should be done. The analysis of credit portfolio predicts the evaluation of influence of the change of its structure.

Correspondingly, to methods of scenery analysis using the example of credit portfolio of Alfa-Bank we examine three possible variants of the development of situation – optimistic, realistic and pessimistic.

Final results of calculations according to six sceneries composed according to the defined ranges were shown in tabl. 3.8.

*Table 3.8*

**Modeling of the stability of credit portfolio of Alfa-Bank**

	Pessimistic range		Operational range		Optimistic range	
Change on	-2.00%	-1.00%	-1.50%	0.50%	-0.50%	1.00%
Change pn	-2.50%	-1.00%	-2.20%	0.50%	-0.50%	1.00%
Vpr	28084839	29029916	28396893	32611402	29413296	30563437
Rn	854224	780787	817505	1014870	744068	633911
YrR	11.6	12.3	11.9	13.4	12.6	13.5
$\bar{a}$	0.2125	0.186	0.2038	0.2206	0.1753	0.143

Therefore, conducted modeling of stability showed instability of credit portfolio to sudden negative changes of factors influencing its profitability. Thus, results during pessimistic and realistic variants of events show that the profitability of credit portfolio taking into account the risk and losses on reserves can be lower than the point, which shows situation without losses. It requires a serious transformation of internal system of limits, quotas and limits and the system of interaction of structural subdivisions and employees of the bank individually under the process of the management of risks of credit portfolio.

The system of quotas for the part of credits of the definite type and limit concerning credit debt are suggested to be conducted to increase the

stability of credit portfolio of the bank, what supports a high profitability of credit portfolio under any variants of events.

Thus, introduction of the methods of scenery analysis in the system of management of portfolio credit risk of Alfa-Bank allows accurate revealing of possible negative changes in credit portfolio of the bank in future. Received data will be used for optimization of credit portfolio and foundation of instruments of minimization of portfolio credit risk of the bank.

Different types of risks influence differently the stability of the bank and caused by different factors, they can be under the control of the bank in different ways that is why, according to them methods of one type and measures of management can not be used.

Portfolio credit risk is medium value of risks of all agreements of credit portfolio, which is revealed in decrease of value of assets of the bank (another than because of the change of interest) because of the impossibility of some debtors to pay back their contracts obligations according to credit agreements. The system of management of credit risk includes subjects, object, instruments and subsystems of support. Internal factors are the object of management of the program of management of risk. The range of subjects of management is defined on the base of the organizational structure of the bank. The process of the management of portfolio credit risk predicts its evaluation, regulation and control. There are normative, information, technological and personnel subsystems of the support of portfolio credit risk.

Creating organization system, the division and setting responsibilities and authorities of the system of management of risks is very complicated question.

Development of income and outcome information flows on the base of which management decisions are taken and building of the system of internal control are very important.

Alfa-Bank supports the volume of the capital on the high level but the profitability of the capital is on the low level. Nowadays, the strategy of the development is made in the bank, the main goal of which is effective increase and improvement of the structure of incomes.

Crediting remains to be one of the most favorable and profitable direction of the activity of Alfa-Bank. Credit portfolio of Alfa-Bank is concentrated in the most developed regions of Ukraine and in two most popular spheres of economy – trade and production. The quality of credit portfolio is essentially become worse because of the influence of external and internal factors. In medium and long-term periods, credit risk and

problem debt increase in the bank.

Norm and information support of the process of management of credit risk supports all levels of management with necessary information. The process of the management of portfolio credit risk predicts the following: identification of factors, evaluation, the choice of method of minimization and monitoring.

In the process of investigation, possible ways of the improvement of the system of risk management have been revealed and software to improve and increase the speed of the data processing and defining potential risks has been suggested.

The scenery analysis to implement its methods in the system of management of portfolio credit risk of Alfa-Bank has been proposed. It allows revealing of possible negative changes in credit portfolio of the bank with high accuracy beforehand in future. Received data will be used for optimization of credit portfolio and foundation of instruments of minimization of portfolio credit risk of the bank.

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## Chapter 4

# INTERNATIONAL COMPETITIVENESS AND INNOVATION

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### **SOCIO-HUMANITARIAN POTENTIAL OF UKRAINE'S COMPETITIVENESS WORLDWIDE**

The study of the competitiveness and related socio-humanitarian aspects of Ukraine's development is based on the understanding of this economic category as the possession of certain properties by naturally different objects (types of products; enterprises and organizations, their groups, associations and complexes; countries and their unions), which are able to create advantages for the corresponding subjects of economic competition (competitive struggle) in a large variety of focus areas – the competitive fields of micro-, meso- and macrolevels, with each of them having the national and international scope. Microcompetitiveness is traditionally viewed as the correlation between the price and the quality of the goods and services of certain manufacturers; mesocompetitiveness – as the operating efficiency of economic segments, estimated by the criteria of productivity and a share of labor compensation in the product cost, capital and research intensity, technical level and price dynamics of products, a degree of segment's involvement in the national and international division of labor, its export-oriented nature and dependence on imports etc. Macrocompetitiveness is usually defined as the capacity of countries and their unions for independent political development and successful economic competition on the global markets of goods and services, which depends, in particular, on a collection of their security properties, structural and spatial balance of economic systems, investment climate, tax, tariff and customs policy [1, pp. 67-70].

Hence, the determinants of the competitive advantages of the subjects of the competitive struggle of the aforementioned levels in industrial, neo- and post-industrial economies contain a significant multi-segment socio-

humanitarian component, which is generally characterized by the quality of human capital, intellectual, knowledge-generating and rent-forming potential of labor resources, indicators of life quality (primarily, the volume and structure of revenues and expenses), social security and protection of population. Considering the main components of the socio-humanitarian potential [2, pp. 192-193], the effectiveness of the strategy for raising the national economy's competitive capacity in the world arena is formed mainly by:

- the rather inertial factors of the health status and reproductive priorities of population;
- the factors that regulate its educational, professional and qualification level, including the balance of legislation which governs the rights to education, professional and advanced training and their accessibility;
- the factors that determine the macroparameters of reproduction of the workforce potential, including: the feasibility of the priorities of the national employment policy, relating to the volume and structure of personnel training, labor compensation, control over the employment of workers trained within the framework of the government order; the compliance with labor legislation (primarily, in regard to the occupational safety, right to rest, social protection of wage employees and self-employed workers).

The aggregate socio-humanitarian resource (capitalized and potential) reveals itself both in social and economic stability, the technical and technological, personnel and managerial parameters of production processes, the innovative and investment policy of facility, sector, national and supranational levels, as well as in the profile of the internal and external demand for goods and services (i.e. the ultimate purpose of raising their competitive capacity).

Along with a range of the properties of human resources and the living standards and life quality of working-age and pre-working-age population, the socio-humanitarian potential of Ukraine's competitiveness worldwide also covers other properties of the social subsystem of human society reproduction. In general, it is reasonable to define the latter as: 1) its broadest functional subsystem that generalizes a collection of the institutions structuring the society, as well as the forms of social reproduction, which appeared in the process of meeting the social or non-production needs, namely by arranging the distribution and consumption of produced benefits; 2) a collection of the sectors of the national economy, which serve individual consumption and create the general conditions of its



functioning with regard to satisfying the demand for tangible and household, social and cultural goods and services; 3) a resource of public production, related to the formation and implementation of a range of the components of social and human capital itself in all of its organizational, labor and creative aspects.

According to the said definitions, the social subsystem of human society reproduction forms, creates conditions and provides the implementation of the workforce capacity (in psychophysiological, educational, professional and qualification dimensions), some tangible and a collection of intangible resources of the rent-generating and general economic value (information, a range of the results of fundamental and applied scientific and research, research and engineering developments, cultural and artistic works, etc.). This results in the expansion of the resource base and the optimization of the resource intensity of production processes, the improvement of the useful properties of involved materials, equipment and technological processes and, hence, the volume, assortment and quality of the products of different economic segments. Therefore, the social subsystem of human society reproduction plays a key role in the formation of motivations, the determination of the priorities, strategies, mechanism and tactics of the innovation process at the micro-, meso- and macrolevels of social organization and national economy.

The activity of social-purpose sectors in the area of the restoration of the labor potential of population, the synthesis and progressive development of fundamental and applied scientific knowledge, the creation of resources and conditions for meeting the cognitive, intellectual and aesthetic needs of the certain categories and the entire population of customers creates an innovative resource (and in the context of the innovation process – an initial capital) and/or the conditions and factors of its capitalization. Along with the restoration of the professional, educational and qualification levels of the national economy's workforce, the role of the social subsystem of human society reproduction in the formation of the resources and conditions for the innovation process is determined by the creation and commercialization of:

- the specific results of fundamental and applied scientific, research and engineering developments (ideas, discoveries, technical and technological developments, computer programs, databases, projects, drawings, etc.) that can be registered as inventions and, thanks to the presence of production assimilation prospects, are classified as an

innovative technological resource, the use of which enables the production and expansion of the sales volume of science-intensive products, as well as the improvement of the trade turnover of other goods and services;

- the products of literature in different subject areas, as well as the whole range of products in the areas of culture and art (including applied art), which can be patented or protected by the copyright or related laws and (as a result of mass distribution by light industry and printing enterprises, print and electronic mass media, show business, film-distributing and other branches of the leisure and entertainment industry) acquire the individual, collective, general economic consumption value.

The importance of the socio-humanitarian components and factors of competitiveness increases against the background of globalization. By strengthening the requirements to the economic efficiency of economy management and international competition, this global process sharpens the contradiction between the state's need, while promoting business activities, to lower taxes and reduce social programs and, on the other hand, to increase the expenses for the development of education, science and other segments as part of the system of social security and social insurance for the purpose of improving human capital as the current driving factor of economic growth.

The increase of such investments has already been long viewed as one of the most important components of the growth in the productive force of an individual, production and revenues [3, pp. 27-28], and at the level of sectoral strategies – as one of the integral components of the national strategy promoting the transition to industrial production, which is based on advanced technologies and focused on a mass consumer [4, p. 4].

The trends of the improvement of the strategies and schemes of the social protection of population in the countries at the neo- and postindustrial stages of development were caused by:

- the establishment of knowledge-driven economies which are based on the effective models of the coordination of the domestic economic and foreign economic, innovation and investment and social policy, the development, diffusion and use of knowledge, information and new developments (including via knowledge networks represented by the segments of education, science, information infrastructure and, in particular, electronic information and communication networks) and the optimization of their contribution to the increase in productivity by

improving the organizational conditions [1, pp. 73-74];

- the fundamental changes in the structure of the aggregate capital of developed countries (a share of human capital in its structure reached 70-75 percent, thanks to which the increase of knowledge and educational level have already been long determining up to 60 percent of the rise in the national income of such countries [5, p. 44]).

The scope and role of the social subsystem of human society reproduction in the innovation process enables us to consider rent-forming resources and a range of rental payments as its primary resource and quantitative result. Among the potentially most rent-forming resources (and, hence, those having a significant innovative capacity and able to make a relevant impact on the whole economy and society), it is important to mention science and scientific services, professional education, culture and art, as well as – with caution in regard to the anthropogenic origin of rent-forming resources – the tourist and recreation industry.

Rental relations in the national and global economies can be viewed as an important component of the innovation process' mechanism, and the volume and structure of economic rent or the surplus profit from the sale of a range of quasi-rent-forming resources (it is important to differentiate its main types, such as educational, creative – or scientific and originative, as well as conjunctural political) – as the quantitative and qualitative characteristics of its scope, priorities and development trends.

A wide range of creative activity, the trends of the innovation process and scientific and technological progress diversifies the areas of the generation of rental income from the capitalization of Ukraine's socio-humanitarian potential, contributing to the derivation of the following types of creative quasi-rent [6]:

- technological quasi-rent, related to the implementation, production assimilation and operation of the innovative (fundamentally new or aimed at improvement and diversification) technical and technological developments, which enable the improvement of the effectiveness and quality of the industry-specific activity related to the manufacture of products in the existing assortment or the launch of the manufacture of new products, including innovative goods and services, by enterprises and organizations, technologically related segments and branches;

- organizational and managerial quasi-rent, related to the use of the more effective forms, tools and methods of production organization and

management by enterprises and organizations, technologically related segments and branches;

- commercial quasi-rent, related to the application of the latest forms of the turnover of goods and services, as well as the improvement of the processes of their promotion using the methods of logistics, advertising, etc.;

- financial and credit quasi-rent, related to the use of the modern forms and methods of consumer lending and insurance business in the area of voluntary personal and corporate insurance by industry-specific economic entities (banks, credit unions, insurance companies).

The large-scale development of innovative resources and, hence, the conversion of specific new developments into commonly used, which determine a socially normal level of the expenditures and prices for goods and services, including as a result of increasing competition on the market of intellectual products protected by the copyright and related laws (thus, surplus profit becomes its average normal value in a certain type of economic activity), serves as a solid impetus for the further intensification of the innovation process.

The purpose of the innovative development of a collection of the household, social and cultural segments of Ukrainian economy, their business entities of all forms of ownership is to develop, implement and assimilate the new developments intended to enhance the quality of realized tangible and household, social and cultural goods and services (first of all, being focused on the provision of effective standards and servicing guarantees, as well as a range of personalized needs which are variable in time and spatial perspective), as well as to optimize economic environment and encourage modernization processes in economics in general (primarily, by enhancing their staffing, methodological and technological support, maintaining and improving labor potential, raising the professional and qualification level, innovation activity of the employed).

Lack of budget funding of innovation activity in the social-purpose segments of Ukrainian economy currently combines with the establishment of its understanding in the business sector as the expenditure of resources primarily for the procurement of imported equipment and materials, science-intensive and high-technology goods and services designated for associated purposes; just a small portion of business entities buy new technologies, including in the form of intellectual property rights. As a result, relevant resources almost do not reproduce in the national scientific, research and engineering

developments, and the national intellectual product's capitalization takes place mainly outside Ukraine.

While investigating the legislative and regulatory framework, management system, the mechanism and level of the financial provision of innovation activity and the use of the innovative potential of social-purpose segments, it is also important to note:

- the frequently encountered practice of the disregard or suspension of the articles of laws and regulations related to the financing and promotion of scientific and technological and innovation activity in the segments of education, science and scientific services, other science-intensive types of economic activity and the special economic zones of the innovative direction (primarily, in relation to the benefits for the taxation of a relevant economic activity and the financial promotion of the development of start-up centers);

- the crudity of statutory and regulatory provisions related to: the attraction of extrabudgetary funds to the scientific and technological and innovation fields within the range of the forms of public and private partnership (namely, concession); the provision of the necessary expenditures of the manufacturing industry for scientific research and developments; the investment in innovation activity by banking entities, etc.;

- the insufficient specification of the priorities of innovation activity, stipulated by the Law 'On the Priority Directions of Innovation Activity in Ukraine', in relation to social-purpose segments;

- the scarcity of the practice of the venture capital financing in the area of science-intensive technologies by means of domestic capital;

- the insufficient use of the innovative potential of international and cross-border cooperation, related to: the development of cross-border regions and free economic zones within their boundaries; the provision of the functioning of international transport corridors;

- the poor capability of the judicial system in relation to copyright and patent law.

An important condition for the competitiveness and innovation activity of graduates on the labor market is their practical competence, including that acquired during production practical training. The experience of the national higher educational institutions in the arrangement of production practical training indicates both their intention to maintain an appropriate level of the material and technical, organizational and methodological and staffing support of this component of the educational process and a number of issues caused, in

particular, by:

- the complexity of the arrangement and financing of the process of production practical training within the scope of the commitments of higher educational institutions due to: the reduction in practical training bases, including within the framework of their infrastructure of scientific research and auxiliary activities; the shortage of funds for labor compensation payments to production practical training supervisors; the problems related to the arrangement and payment for students' transportation and accommodation at the place of production practical training;

- the imperfection of the procedures motivating economic entities, which are involved in the delivery of production practical training, in the context of: the complexity of the appointment of students to the positions corresponding to their speciality; the use of placement students' labor, which is determined by the entrepreneurs' understanding of the production process and commercial confidentiality; the selection of practical training supervisors at the place of production.

The mainstream trends of the improvement of the effectiveness of the national innovation policy in the social sector should include: the coordinated improvement of the standards and other principles of its functioning and state regulation (in particular, the promotion of the self-development and self-realization of the innovative potential of economic entities by using the budgetary, financial and credit, fiscal policy); the use of program- and goal-oriented approach to the settlement of tasks which are particularly urgent in the context of the implementation of the innovation development model of the social subsystem and national economy in general; the satisfaction of the demand for high-technology and environmentally friendly products, the expansion of the relevant segments of Ukraine's export potential.

The main activities within the framework of the aforementioned mainstream priorities of the innovative development of the national social sector include:

- the optimization of the mechanisms of control over the conformity of the conditions and quality of household, social and cultural services to the effective guarantees, standards, regulations and requirements;

- the promotion of the development and implementation of resource-saving, environmentally and socially safe technologies, equipment and materials in the production and economic practice and the activities related to the sale of products (services, goods);

- the development of the legislative and regulatory framework in the area of the competitive arrangement and resource provision of innovation activity in social-purpose segments (including in terms of the formation of the structure of its funding sources based on the need to enhance interaction between public resources and private capital, improve material and technical supply to the innovation cycle, implement relevant benefits);

- the government support (involving budgetary and non-government financing raised by economic, financial and credit, fiscal guarantees and benefits), handling of the mechanism of partnership between the state and the private sector in the implementation of innovative projects related to the improvement of the quality of life and safety of population, the competitiveness of the employed, as well as certain goods and services on the foreign market, the clustering of spatial economic systems;

- the promotion of the development of enterprises and organizations, working in the area of technology commercialization; the handling of the mechanism of the settlement of an issue related to interruption in the innovation cycle at the stage of transferring from fundamental studies to commercial technologies via scientific and research, research and engineering developments, which is caused, in particular, by the insufficient development level of science and scientific services in the sector of applied developments, interregional disproportions in the branching of innovation infrastructure;

- the implementation of the national educational, personnel and employment policy intended to improve the relevant components of the innovation process and carry out the priorities of the diversification, modernization and post-industrial restructuring of economy.

Along with the optimization of investment processes (in particular, spatial and industry-specific investment flows), the important factors of the improvement of the innovation climate in the regions of Ukraine is the provision of social mobility and activation of population. The use of the factor of social mobility provides for a certain income level of the mainstream population (including depressed-area residents), which is sufficient for shuttle labor migration or movement to a new place of employment and residence, as well as the implementation of the national policy related to the creation of new jobs in regions and contribution to household assimilation of migrants representing a contingent of required workforce. The population activation techniques include the promotion of the business activity, self-employment and innovation activity of

economic entities, shuttle and interregional labor migrations, the improvement of the professional and qualification potential of population in accordance with the needs of a certain region.

The important trends of the implementation of the innovative potential of territorial communities are connected with the expansion of the employment sector thanks to the promotion of innovative activities in the household sector, mass and specialized tourism and leisure industry, innovative infrastructure networks, industrial parks, production and service clusters within the free economic zones of various types, cross-border regions, international transport corridors.

Therefore, it is not so much the increase in the financing of education, science and scientific services, culture and art (an undoubtedly important factor of their sustainable functioning in the long term) as the maintenance of the achieved quality of their information support, general and professional educational level of population, promotion of business activity at the different stages of the scientific and production cycle and service sector that is of key importance for the implementation of the innovation potential of Ukraine's human resources. In combination, these trends can provide a rather rapid increase in the competitiveness of economy, including by means of the securing of the national economic entities on the global markets of science-intensive, cultural and artistic products, tourism and recreation resort services, professional education, specialized (tertiary) health care.

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**THE STRUCTURAL ADJUSTMENT  
MECHANISMS OF THE SUSTAINABLE  
DEVELOPMENT ECONOMY IN THE  
EUROPEAN UNION**

The aim of this research is the development of economic growth mechanisms and instruments in Europe in the context of the strategic priorities of sustainable development.

The objectives of the research are:

- To improve the regulations of capital markets and encourage investments in the European economy;
- To develop conceptual models of automated ordering system in the energy production and consumption domain which includes improvement of energy efficiency?
- To create modern tools for improving employment on the basis of labor duality and program-oriented management.

The research is directed to consideration of the regulation mechanisms of social and economic relations through the prism of innovative improvements in three key areas of the EU development strategy, namely stimulation of investment activity and capital market regulation, energy development and increasing of employment.

Reflecting the European Union development strategy, we can not underestimate the arising problems. To achieve qualitative structural changes, it is not sufficient to work tomorrow better than today. It needs deep qualitative transformations in techniques and technology, organization and culture of work, the forms and methods of management, in relation to the business and in type of economic thinking.

Considering Europe as multinational and multicultural entity, with different levels of territory development, I believe that to determine the optimal ways and mechanisms to ensure high economic growth, the results of structural analysis should be used.

Because structural analysis, especially if includes Huttman hierarchical scales, allows to obtain empirical data on the presence or absence of specific types of socio-economic activities and their interconnection within a certain geographic area [1, P.133].

## **The regulation of capital markets and investment incentives**

Today, more and more European companies are looking for opportunities for their development not only through the prism of entering new markets, but also reducing of total costs and therefore increasing profits. In particular, due to the withdrawal of capital from the EU to the countries with cheap resources (material and human), lower taxes, more liberal environmental and social standards, lower logistics costs, with cheap intangible assets (primarily intellectual property).

The liberalization of capital flows led to a sharp increase in the stock and currency markets capitalization, which in turn led to the breakdown with the real sector, and as a consequence, to release of workplaces. Today, investments in securities are more compelling than investment in scientific and technological activities. Because investments in securities provide quick profits with less risk, even if it is impoverished by tangible and intangible assets. Therefore, establishing of efficient regulation mechanism for the capital market with an optimal direction of investment flows in strategic priorities sectors is urgent for the present and future.

Despite the fact that the eurozone countries stably are among the leaders in foreign investments attraction, also the EU is a major exporter of capital.

For example, in 2012, the volume of foreign direct investment exports net from EU countries amounted 323 billion of dollars of the USA [2]. Moreover capital washout trends have growing character.

In order to improve investment climate in the EU, accurate and flexible investment policy is required. Conceptually investment incentive mechanism can be represented as the “project” – “stimulus” parameter (tabl. 4.1).

It should be noted that the values in tabular form are conditional, because the mechanism of investment activity stimulating of the EU development is conceptual. Therefore, to determine parameters more precise it is necessary to conduct deep structural analysis at sectoral and regional dimension of the EU.

Also important today and in far perspective tool for the European businesses development can become outsourcing, especially in information technology (IT). A lot of European companies are now successfully using this mechanism in implementation of its business processes. This method is useful because it allows distantly attract

intellectual capital, especially from countries that are dynamically developing (Ukraine, Belarus, Kazakhstan, India, Pakistan, China, Thailand, Indonesia, etc.).

Table 4.1

**The system of investment incentives**

Type of investments	Sphere of investment	The scope of investments	Expected effects	Incentive instruments
The real (productive, capital) investments	Automated manufacturing, nanotechnology, biotechnology, alternative energy	more than 250 million Euro	<p><u>Social effects:</u></p> <ul style="list-style-type: none"> <li>- Creation of workplaces (at least 1000);</li> <li>- Implementation of joint educational and research projects within universities in the EU.</li> </ul> <p><u>Environmental effects:</u></p> <ul style="list-style-type: none"> <li>- Complete processing and recycling of waste;</li> <li>- The minimum level of CO<sub>2</sub> and other substances emissions.</li> </ul>	Full tax exemption for a 2 years period from the start of the commissioning of the investment object (if the project is innovative to the limits (includes implementation of basic or radical innovation) – do not have analogues in the world)
Portfolio and real (productive, capital) investments	IT sector, nanotechnology, biotechnology, alternative energy	100-250 million Euro	<p><u>Social effects:</u></p> <ul style="list-style-type: none"> <li>- Creation of workplaces (at least 500);</li> <li>- Implementation of joint projects with local communities.</li> </ul> <p><u>Environmental effects:</u></p> <ul style="list-style-type: none"> <li>- A high level of processing and recycling of waste;</li> <li>- The minimum level of CO<sub>2</sub> and other substances emissions.</li> </ul>	Full tax exemption for a 1 year period and the payment of only half of the prescribed sum of tax payments from the beginning of the commissioning of the investment object (if the project is innovative);

Such approach to IT business does not require the immediate

presence of specialists from these countries in the EU, forming for them adequate labor conditions, housing, social security and so on. It provides the European companies with a possibility to buy prepared results of intellectual property at a low price without implementation of additional operating expenses. And the resulting savings companies can invest in the creation of basic innovations on the basis of intellectual property.

Consequently, for European companies, the outsourcing mechanism is convenient due to the fact that it allows distantly attract cheap and qualitative intellectual capital without increasing flows of labor migration to the EU.

This approach is also convenient because it provides with the possibility to attract intellectual capital from outside and create on its basis “critical technologies” which allows European companies to mobilize even more powerful financial capital. And not only from such countries as USA, Canada, Japan, but also from others are which demonstrating dynamic development in recent years. Every year capitalization of many financial and industrial groups in Asia, Latin America grows and they are looking for opportunities to invest their capital in a reliable economic environment such as in EU.

The evidence of this is intensification of financial flows to the EU from these countries in recent years. For example, only in the last ten years in European sports clubs was invested tens of billions of euros from the Arab countries, China, India and Russia.

### **Increasing of energy efficiency**

Contemporary global market is not characterized by price competition but by competition of costs. Win those who have the possibility to reduce the threshold of total costs without reducing the qualitative parameters of the products. This in turn is possible only on the production and management of organizations innovation system basis.

One of the strategic objectives of economy structural reforming and its innovation is to increase energy efficiency and conservation. Reducing energy consumption per unit of output allows not only to minimize the cost of the entity, but also to increase GDP on a national scale by economizing energy resources invested in expanded production.

“Green tariff” has to be main energy saving stimulating mechanism – a system of rules and tariffs, as well as accounting and reporting on

energy consumption aimed at energy saving technologies.

Energy security issues it is not only a sufficient level of energy security, but also economic and environmental aspects of economic development. The basis for this would be “United Energy Platform” (UEP) – monitoring and stimulation system in the energy sector.

UEP may also be considered as a mechanism for the collection, storage and systematization of information about operational analysis of production and consumption of energy, traffic flows for its purpose and incentive instruments in the energy sector, as well as the formation of a consolidated energy balance. One of the main objectives of the UEP would be to stimulate GDP growth while reducing its energy intensity.

The conceptual model of “Unified Energy Platform” (tabl. 4.2) has to be implemented in a universal system of automation of organizational and economic relations between entities in the energy sector. This automated system should represent a set of software tools. Users of this software system will be state and regional authorities in the energy sector, producers of energy resources and end users.

*Table 4.2*

**The Model of “Unified Energy Platform”**

<b>Users</b>	<b>Type of energy resource</b>	<b>Monitoring</b>	<b>Stimulation</b>	<b>Service</b>	<b>Operations</b>
- User Settings - Manufacturers - Serving organizations - Consumers	- Electricity - Natural gas - Renewable energy (solar, water, wind) - Hydrates	- Production of energy - Supply - Consumption - Payment	- Non-rates loans for energy-saving technology - Subsidies - Reduced rates	- Notification - References - Documents - Registers of dates	- Journal of registration - Planned parameters - Estimated letters - Individual card

Each section of the “UEP” model forms a separate software module with the corresponding file group and may be linked to another section on the basis of defined interaction of subjects and objects of energy relations. The configuration of this platform should provide extended or limited access of rights to data entering or changes depending on the type of user. For example, the end user can only enter the consumption values, leave the required application and comments. The manufacturer,

in addition to these functions, can have access to operational data, for analysis of the adjustment of its activities. Governments, respectively, should have the broadest access rights, including changing the technical configuration of the UEP.

In this tabular form is shown only a narrow list of metadata, which, depending on the objectives, technical capabilities, etc. can be changed for filling and processing of necessary resources.

Another important strategic objective of EU economic policies should be updating of logistical assets (worn-out and obsolete). Stimulation of this area by the state is appropriate only if new equipment and technology is much more efficient (productive, economical), safer (for workers and the environment) than existing ones.

### **Unemployment reducing and improving of human resources quality**

In terms of destructive demographic processes deepening in the EU, there is a need to develop an effective mechanism to minimize the level of social tension and ensure a maximum level of social relations harmonization and high standards of living.

One of the biggest problems in this sphere is “population aging” in Europe that provide an increasing number of pensionable age persons comparatively to the working population. There is necessity to develop an effective mechanism to solve this problem.

One of the effective ways to solve “demographic crisis” in the EU could be introducing a system of social employment development. In other words the development of employment types suitable for both young people and for retirement age people, especially in services. The system should also be aimed at maintaining start-ups and other forms of employment the working age population to minimize unemployment and provide flexibility in the labor market, promoting the adaptability of people to the current requirements of employers and challenges of globalization.

Within the framework of the labor market development, I believe that the EU is expedient to establish a program on stimulating of non-traditional forms of employment, such as:

- Full employment in conditions of flexible forms of working time;
- Underemployment, modes of part-time employment;
- Temporary workers;
- Employment on the basis of secondary employment;

- Employment contracts based on a civil law;
- Home work;
- Distance employment;
- Loan labor (personnel leasing, outstaffing of personnel, outsourcing of personnel).

The given system of employment has to be linked to the current sphere of social protection in the EU and its main tasks includes creating conditions for reducing the burden on Pension and Social Protection Funds, and ensuring the harmonious development of society based on a high level of material well-being, culture and so on.

The idea based on the principle of labor duality is also interesting. It is to link unemployment benefits not only with unemployed but also with the subjects of economic relations. The peculiarity of it is that for advanced professional training and labor mobility would be appropriate to encourage firms to create a place for training unemployed people without (full or partial) obligations to their further employment. At the same time benefits (assistance) on unemployment bind to the place of training or retraining. Such a mechanism will allow both sides to get some benefit (tabl. 4.3).

*Table 4.3*

**Advantages of the labor duality principle to employers and unemployed**

<b>Firms</b>	<b>Unemployed</b>
<ul style="list-style-type: none"> <li>- Receiving of a free labor;</li> <li>- Receiving of tax preferences or subsidies in the case of employment of the unemployed.</li> </ul>	<ul style="list-style-type: none"> <li>- Getting experience (professional) knowledge and skills;</li> <li>- Employment opportunities on a regular basis.</li> </ul>

I also consider that for improvement of labor market functioning regulation methods based on principles of social duality should be established. This principle includes involvement of two parties (members of the labor market) to professional interaction. Such interaction is beneficial not only to its direct participants, but also the whole region, state, etc (tabl. 4.3). Because as a result of these mutual relations, increases the mobility of human resources and their professional adaptation, including the challenges of globalization, the probability and scope of employment and the possibility of high-quality recruitment for employers. As a result, the labor market could become more flexible and diversified, which will increase the relevance and

balance of supply and demand on it.

In general, I think the basic lever mechanism of employment regulation have to be target-oriented administration. In turn, the main forms of program-oriented management have to be programs and projects within the major social objectives of socio-economic development strategy.

### **Conclusion**

The feature of the proposed mechanisms is that they are rather conceptual basis and require a deeper research for the most effective implementation in the European Union economy in order to provide high economic growth. Consequently, the proposed facilities will enhance the flexibility of the economic mechanism as a whole, its susceptibility to structural changes and innovation, create appropriate innovative climate, which is so necessary to ensure high rates of economic growth in accordance with sustainable development.

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**THEORETICAL  
PRINCIPLES AND TOOLS  
OF STATE REGULATION  
OF THE INTERNATIONAL  
COMPETITIVENESS OF  
THE REGIONS**

Today in economics is rather developed regional management problem, she dedicated her works domestic and foreign scientists. The scientists offered their own approaches to defining the essence of regional management made under the classification process improvement. The directions encourage regional development. However, the issue of state regulation of the international competitiveness of regions is still poorly developed and is fragmented. As a result, it is difficult to determine how effectively regulate economic growth by improving its international competitiveness. In turn, the ambiguous understanding of their nature affects the processes of regional development planning and thus functioning as a whole.

In the opinion of the authors, including Blinova N. Zaharchyna G., Degtyaryova I. Ivanilova A. et al., the basis for state regulation of the international competitiveness of regions have a number of theories and concepts, including: system approach, the theory of state economic management, theories and concepts of competitiveness, strategic management, management-concept approach to the state of economy and the concept of sustainable development.

Analyzing the work of scientists object under study, we found that the main element in the regulation of international competitiveness of the regions is the subjects: the central, regional and local authorities, businesses and people, as they realize the study process. But given the changing paradigm of development, it should be noted that the participation of central should be minimal and limited nature of the coordinating actions.

Because endogenous economic development that is based on the international competitiveness of the regions has an internal system for economic in nature and largely "sensitive" to the specific characteristics of the components of the regional system, mechanisms that implement it should be formed not only at the national level. But it is government regulation of the international competitiveness of the regions to be

essential, since the state is the guarantor of the integrity and security. No less important, especially for unbalanced transformation is the development and implementation of favorable regional policy. First of all, should be based on the fact that regional and local authorities should be able to exercise the necessary regulatory impact on regional development and improve their ability to develop.

This contributes to an optimal distribution of powers, resources and responsibilities between the executive authority of the central and regional levels and local authorities. World experience shows that the distribution of powers should be based primarily under the principles of subsidiarity and complementarity. This is consistent with the new paradigm of regional development, based on “the creation of conditions for realization of regional interests under the responsibility of local authorities.”

Effective government regulation of the international competitiveness of the regions should also provide “empowerment and increasing the responsibility of all economic actors and thus creating conditions for the effective use of limited resources, regional development and improving people's welfare.” This applies to the public, which in developed countries every year an increasing part performs public functions. The main reasons are advanced social capital, which plays an important role in the formation and use of regional advantages and opportunities. This is evidenced by the experience of leaders who are making significant efforts to create and implement human and social capital and achieve high results in enhancing the international competitiveness of regions.

The value of social capital is that “in a society that is built on trust, transaction costs are significantly reduced.” For example, based on trust built mechanisms for public-private partnership. Development of local government as an effective form of solving local issues also impossible without trust and cooperation in the local community, even if the financial capacity is sufficient. Hence, appropriate mechanisms should be local and be directed to the formation of a culture and way of life in a particular area who identify it and make attractive to live and visit. Local factors are crucial for state regulation of the international competitiveness of regions.

Without a developed social capital impossible to build strong regional systems. Global Development Trends show that economic development and enhance the international competitiveness of regions is largely due to the creation of favorable conditions for integration and innovation, particularly through the formation of regional innovation systems in which the leading role played by clusters. This ensures the

coordination of regional economic agents with the features of formation of natural resources in regions that implemented the principle of sustainable economic development.

An important difference of state regulation of the international competitiveness of the regions from the current concept of state regulation of regional development, which is used in Ukraine, is the focus of regulatory impact on internal and external factors. Thus, regulation of regional development traditionally has more intra-oriented, and when it comes to the regulation of international competitiveness, then their formation should equally consider both internal capacity and impact of the competitive environment.

According to the traditional approach to diagnose problems of the regions and by their correlation with appropriate resources, according to the approach of international competitiveness are all opportunities for development, explicit and latent advantages, the sources of their formation (internal and external), the maximum number of stakeholders and possible uses, according to synergistic approach.

Whereas the international competitiveness of the regions greatly depends on the environment and their relationship with regional actors, especially in the activities of the regional regulation must find measures to deepen interregional and cross-border cooperation and creating a positive image of the region, which significantly affects this cooperation. According to Mr. Belenky, image management regions – is the creation, development and distribution, providing a positive image of public recognition areas. It is believed that this is very low-cost strategy, because it does not require radical changes in infrastructure, demanding the formation of other factors of attractiveness and concentrates mainly on improving the communicative aspects of information and promotion of existing benefits territory.

It should be noted that the information activities of particular importance not only to the environment. The result of properly organized information flow is also establishing relationships in the region among all groups of its subjects. This applies to their relations with economic entities and population, and most authorities, including the relationship between officials, departments and other government bodies and local authorities.

As in the context of globalization, the importance of small players in regional development, it is important recognition of the fact that all entities and relationships at the local level can have critical importance for progress because they are not limited by territorial boundaries, and

by information technology and the new economy are multiplicative in nature. This should be considered in the formation of regional economic development.

To achieve significant positive results in enhancing the international competitiveness of the regions should be formed such measures interactions that take into account the obvious and latent interests of public authorities, businesses and the public in each region. Since each region – a special system with its structure, functions, relationships with the environment, history, culture, living conditions, etc. To form the foundations of effective regulation of international competitiveness requires a separate, detailed analysis of the goals and objectives of their subjects.

State regulation of the international competitiveness of regions requires awareness of proper implementation of this process. Problems of formation process of ensuring the ability of regions to the development of different positions repeatedly discussed in the works of local and foreign scientists.

One of the first attempts to create the conceptual bases of state regulation of regional economic development and international competitiveness, which portrayed it as a logical chain sequence of actions:

- 1) improve the quality of professionals;
- 2) the transition to an innovative path of development;
- 3) the maintenance and development of competitive advantages;
- 4) ensure competitiveness objects;
- 5) selection of basic markets.

However outlined the process is somewhat abstract and does not consider the impact of environmental factors. In addition, the proposed Procedure does not provide for specific target-oriented measures aimed at ensuring the international competitiveness of the object.

The process of regulation of economic development and ensure international competitiveness as a series of actions and also considering I. Halytsya. To stimulate economic growth and a high level of international competitiveness of undertakings and the economy in general scientist considers necessary the following measures:

- 1) a gradual increase innovation governance at national and local levels, and mostly through the so-called “advance”;
- 2) strengthening coordination function conciliation State;
- 3) popularization among top management of enterprises means of survival in today's global environment;

4) implementation of measures for health prevention and improving health.

I. Halytsya proposed approach to the conceptual principles of the regulatory process of economic development and enhance the international competitiveness of regions deprived consistency and presented measures can be considered more specific areas of opportunity, rather than international competitiveness object in general.

Slightly wider as “systematic sequence of actions intended to analyze the current situation, calculation of the deviation parameters of economic development and international competitiveness of the rules allows you to find a weak spot and applying a set of concrete measures to eliminate shortcomings” domestic scientists consider Dobryvchenko G, Ivanilov O., Opikunova H. However, this methodical approach appears to be structurally disproportionate because too much attention is paid to assessing the real object of international competitiveness in comparison with measures to strengthen its capabilities. Much attention is focused on the domestic international competitiveness (personnel, production, relationships with external organizations, organizational performance, marketing) and ignored the remaining are constituents environment as infrastructure, legal regulation of the market, customs and fiscal policy, regional participation in trade unions, which have a decisive impact on their international competitiveness.

Given the importance of the integration process for the international competitiveness of the regions, in any case, the basis for this must be laid interaction and integration of regional actors in all areas of the region, the realization of human and social capital, leading to the formation of effective cooperation networks and clusters and subsequently developed regional innovation system.

Considering all the above said, we can conclude that government regulation of the international competitiveness of the regions - a systematic and scientifically grounded impact on the state with the help of methods and tools for factors of economic development in order to ensure sufficient and increase its potential performance using economic, social, environmental resources and expand to independently provide competitive internationally. Unlike previous definitions, the purpose of state regulation of international competitiveness is taken, and the object of influence – its factors classified on stimulants and destimulants.

The main issue is the methods and tools of state regulation of the international competitiveness of regions. In this respect, scientists thought a little run and they can be divided into two groups.

The first group, including Zhylyayev N., Koval's`ka L., Markovs`ky`j S., Tkachuk A., Tolkovanov V. believes that the methods and tools of state regulation of the international competitiveness of the regions overlap somewhat with those elements of regional development. They note that the methods of state regulation of the international competitiveness of the regions are organizational, legal and economic.

Organizational methods include:

- coordination of powers and responsibilities between levels of government on economic development and ensuring the international competitiveness of the regions where important tasks to be the development of regional foreign trade infrastructure and regional development projects with foreign investment of investors with incentives at the local level;

- regional and regional bodies, which are aimed at stimulating economic development and international competitiveness (international competitiveness of the regions, the regional committee of international competitiveness, regional development agencies);

- improving intergovernmental relations, where the real action should increase the share of revenue remaining at the local level, the introduction of a property tax, the expansion of the local assembly.

The basis of the legal methods lay: legislative and regulatory framework, strategic planning, forecasts and regional development programs.

Economic methods of state regulation of social and economic capacity of the regions are taxation, monetary regulation, planning and fiscal management.

With changes in the level of taxation and government spending can be adjusted such important indicators of the economy as aggregate demand, economic growth, inflation and so on. Authorities through taxation level, the procedure for calculating the tax base and a system of tax benefits and limitations determine, on the one hand, the income of the state budget, on the other – regulating business activity of economic entities. An important element of fiscal policy is the mechanism distribution of taxes between the central and local budgets.

The breadth of the impact tools of state regulation of economic development are divided into:

- general – influence the behavior of many entities in certain regions to improve their international competitiveness in the domestic and international markets;

- address – exercise direct influence on the activities of individual

subjects of the regional economy to stimulate their active participation in regional play.

Among the common regional policy instruments that can really boost economic growth and make support regions with development problems, it is important to use differentiated by region regulations, tax rates and conditions of national fiscal, monetary and investment policies. For example, for different regions can be set different tax rates, individual regions can receive preferential loans tariffs or subsidies.

At first glance regional differentiation conditions, fiscal policy is a very effective way to solve the problems of individual regions. Indeed, by differentiating tax rates can increase demand in the regions where it is not sufficient, and vice versa, reduce demand in regions experiencing its overpressure. By similar results lead transfers government to regions with development problems. Financial standards of budget sufficiency are used to determine the distribution of intergovernmental transfers between regions with a view to aligning their development. However, the impact of these instruments on the region limited set of factors. Attempts to stimulate production in some regions due to increased final demand them via tax policy measures implemented through inter and intra interactions. Their effectiveness depends on the ratio of the results of these interactions and the consequential effect of that is the impact of changes in final demand in the region and supported through it spread to other regions. Excessive use of these tools leads to limited opportunities in the region.

Targeted instruments are determined depending on the choice of Impact – labor or capital and selecting areas of influence - internal or external conversion operating conditions. Thus, as a tool to stimulate employment is important to use the training program, retraining, paying special allowances, financial benefits and grants, social conditions; as tools to stimulate capital – grants and subsidies to improve the quality of the organization of production, technical and technological improvements increase the efficiency of capital markets.

The second group of researchers noted that each stage of total operating process meets a certain set of methods and tools. They believe that the inefficient use common methods of regional management, appropriate to use a reasonable method and set of tools for each phase of the process.

Based on the theoretical research achievements of scientists in stimulating economic development and ensuring the international competitiveness of the region we share the tools of government

regulation on regional investment and innovation, tax, transfer and institutional.

Investment and innovative tools are activating in nature and focused on investment in all sectors to stimulate economic development and enhance the international competitiveness of the region, these include: regional investment projects, municipal loans, innovative investment of science and technology innovation to restore the quality of the resources used, etc.

The tax instruments include taxes, fees, tax exemptions and credits that encourage business to a regional system of such activities would be enhanced or hampered the ability of regions depending on the goal.

Transfer tools included in his list of grants, subsidies and grants that are within the competence of state budget and budgets of the regions to improve the international competitiveness of regions.

Institutional instruments are arrangements, agreements, programs and legislation implemented in the specific area to regulate the international competitiveness of regions depending on the purpose.

Thus, the most effective approach to government regulation of the international competitiveness of the regions will be based approach to raising their international competitiveness and aggregate consideration of a stimulus and de stimulus factors. The basis of the success of government regulation of the international competitiveness of the regions will be developed scientific strategy, which is a step-by-step sequence of actions.

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## Chapter 5

### **DIRECTIONS OF INTERNATIONAL SECURITY AND OVERCOME THE AGGRESSION IN CONTEMPORARY CONFLICTS**

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### **DETERMINANTS OF REGIONAL DEVELOPMENT: REALIZATION OF ECONOMIC INTERESTS IN THE CONTEXT OF ECONOMIC SECURITY OF REGIONS**

Peculiarities of the regional system functioning are determined by the influence of many internal and external factors, as well as its economic interests that are implemented in the development of the region and ensure its economic security.

Economic security of the region should be considered in the context of realization of regional interests, since it provides for the protection of regional interests as a precondition and basis for development. Approaches to the interconnection of regional interests and economic security of the region have not been adequately covered in the works of local and foreign scientists. Taking into consideration the fact that this issue is of great importance for stimulating the development of regions and for developing programs for planning and regulating regional development processes, the author considers it expedient to continue in-depth study of this problem. The study of regional development problems should be comprehensive and take into account the integrity of the regional economic system and the relationship between its elements – the regional economy actors. This is impossible without identifying, recording and coordinating the economic interests of individual actors and interests of the region.

Thus, studies of theoretical and practical aspects of the nature of economic interests and their characteristics in the conditions of

transition to market relations are particularly relevant, as well as determination of necessary conditions and factors for effective implementation of these interests at the regional level to ensure security of the region.

The following scientists established a clear and principled framework for the research: A. Weber [1], G. Hegel [2], K. Helvetius [3], P. Holbach [4], D. Dídro, F. Engels, I. Kant, V. Launhardt, K. Marx [5], D. Ricardo, A. Smith [6], I. Tyunen.

The problem of economic security at the national and regional level was studied by scientists, politicians and civil servants, including: L. I. Abalkin [7], Z. Varnaliy, J. L. Zhalilo [8], T. M. Ivaniuta, T. S. Klyebanova, V. G. Tkachenko, O. S. Shnypko.

The issues of economic security and unshadowing of the economy were covered in the works of I. Bin'ko [9], B. Burkyns'kyi, O. S. Vlasyuk [10], V. Geyets [11], Z. Gerasymchuk, T. Kovalchuk, Y. Lysenko, S. Mishchenko, A. Spiridonov, A. S. Sukhorukov [12], etc.; and foreign scientists – V. Allyn [13], G. Becker [14], K. Boulding [15, 16], E. Buchwald [17], J. Buchanan [18], S. Glazyev, N. Glovats'ka, S. Devareydzhen, M. Castells [19], A. Katsenelynboyhen, M. Olson [20], A. Portes [21], E. Sutherland, V. Senchahov, E. de Soto, O. Tatarin, J. Ubarra, E. Phage [23], K. Hart.

Recently, the problems of economic security and overcoming economic threats at the regional level caused by the heterogeneity of the country's economic space have attracted the interest of researchers. The following scientists have been the most active in this field: Z. Varnaliy, V. Kravtsiv [24], I. Nedin, O. Novikova [7], T. Pokotilenko, V. Ponomarenko, V. Reshetylo, V. Semenov, A. Sukhorukov [12], O. Topchiev, N. Chernova, L. Shevchenko, O. Shnypko, V. Yakovlev, etc.

Identifying the place and role of effective realization of regional interests in shaping economic security of the region is of great importance for the study and implementation of a successful regional development.

Economic interests of the region exist objectively, regardless of their awareness as such, and they have always existed, because a certain economic territory, the structure of the population's consumption, production and labor traditions have been preserved historically, and, most importantly, the desire for a definite arrangement of life has been preserved as well. Their carrier is the population of the region, its economic and infrastructure entities [10, p. 37].

Development of the region must be viewed as a two-way process: on the part of the state it is the growth in the quantity and quality of resources and consumer goods that a certain region provides for the national economy. From the regional point of view, this is an increase in the volume of production and consumption of tangible and intangible goods, increase in population and income per capita, improvement of socio-psychological climate, environmental situation, growing role of regional economy for national economy.

Development of the region is considered as a gradual process of achieving a specific goal, and then the concept of development can be formulated as a means to achieve this goal and the way to it.

In this context, it is clear that the purpose of economic development and achievement of the goal of economic interests are on a par, and almost coincide.

Undoubtedly, development of the region directly depends on successful implementation of economic interests of the region, and, in turn, economic interests are the driving force of regional development, since only through their implementation specific goals and objectives are achieved, which can be expressed not only by qualitative but also quantitative characteristics.

As stated in the "Encyclopedia of Economic Security" [25, p. 35], economic security objects of the region are the region area, and everything that belongs to its economy and is located in the area.

Economic security of a national territorial subdivision (district, region, economic region) should be considered as a combination of the current state, conditions and factors characterizing the stability, sustainability and gradual development of the regional economy.

On the one hand, economic security of regions involves integration of the regional economy in the country's economy, on the other hand – preservation of regional independence.

Ensuring economic security of the region is possible provided that the interests of all participants in the regional development process are taken into account: enterprises, industries, cities, districts, etc.

At different levels of regional development, economic, political, environmental and other interests are closely intertwined, and the higher the level of regional development is, the more participants enter the process, the wider the circle of interests becomes [26].

Economic interests of the region expressing its needs are an effective stimulator of regional reproduction inextricably linked with the process of regional development.

Economic interests of the region reflect the requirements of economic laws in the regional processes of economic development. In their essence, they specify the purpose of regional development in accordance with natural, climatic, historical-ethnographic, demographic and other conditions [25, p. 39].

Economic interests of the region determine the state of the economy that takes its place in territorial division of labour, when the population has a sufficiently high standard of living to meet their material and spiritual needs, to ensure public health and environmental sustainability.

At the regional level, the vital activity problems are expressed in finding and using local advantages in domestic and foreign trade exchange, as well as in using the specific features of the region to improve the population's standard of living.

At the local level, the problems are being solved to ensure favourable living conditions for the population; regulation of activities of enterprises and conditions in the area; use of local opportunities for full provision of social guarantees and assistance to low-income families.

In the regional range of issues of regional interests, the economic component assumes the leading role through the fundamental importance of economic potential in economic activity and national relations. First, it is determined in the development of production and market relations, exchange of goods and services. Secondly, it forms the provision of preventive and protective measures. Thirdly, it allows regulating aggressive or creatively intelligent intentions and actions.

The literature and business practice developed some concepts of interests from the standpoint of the entity's security provision in relation to different areas: provision of consumer resources (energy, food), maintenance of proper environmental quality (ecological), regulation of knowledge transfer (informational, intellectual), social life (political, military, criminal), financial system functioning (banking, monetary system).

Therefore, economic interests should reflect the actors' internal needs and take into account the real threats carried by economic relations.

Thus, economic interests primarily determine the direction of economic activity, motives of behavior and operation of an economic entity, and also aggravation or harmony of relations between the economic process participants.

Defending the interests, ensuring achievement of their goals depend on the formulation and solution of clearly specified tasks of safety of

economic systems' activity. At the same time, previously prevailing protective (restrictive-punishing) functions in relation to hopes for security are transformed into the most technological procedures influencing directly the processes of achieving the set goal or results corresponding to the current situation. The difference of interests, goals, tasks, and methods of their satisfaction has led to an expansion of the scope and directions of the security of economic entities functioning from the individual scale to the universal one.

Observance of the economic entities' interests proceeds from the analysis of the factors of the consequences of improving the lives of people who are able to influence the change in living conditions: comfort, employment, human rights and freedom, quality of habitat:

- directly – through everyday routine, food and industrial goods provision;
- indirectly – through the use of natural resource potential.

To understand the meaning of the categories of economic interests and economic security, it is necessary to define the criteria and indicators of the efficiency of economic systems in the region.

A criterion in the general sense is understood as a certain feature on the basis of which an estimate is made. It must be taken into account that it is possible to assess the functioning of an economic system only by considering it from the perspective of a large system into which the system under study enters as a subsystem.

On the other hand, there must be a number of principles for creating a criterion for analyzing the functioning of an economic system at the regional level. Such principles are well formulated in the work of A. A. Biyakov and N. Y. Kolomarova:

1. Functioning of all socio-economic systems of the region in the framework of a single economic and information space and state integrity;
2. Recording the level of social and economic development of the region;
3. Using natural resources in the region;
4. Recording ecological state of the region;
5. Identifying and using progressive industries, the development of which would contribute to a rapid recovery of the region's economy, stabilization and growth of the population's quality of life in the region.

Criteria for evaluating the realization of economic interests of the region are given in tabl. 5.1.

Table 5.1

**Criteria for evaluating the realization of economic interests of the region**

№	Section	Indicators
1	Social	1. Household income 2. Arrears in payment of salaries 3. Number of employees in the economy of the region
2	Financial	1. Receivables 2. Accounts payable 3. Debts to the budget 4. Debts to off-budget funds 5. Credit investments in the economy
3	Industrial	1. Financial results of the industry 2. Average number of employees working in the industry of the region 4. Average salary of one worker in the industry 5. Volume of cargo transportation
4	Ecological	1. Level of contamination of the environment. 2. Level of expenditure on environmental protection
5	Innovative	1. Share of innovation active enterprises 2. Amount of innovation expenditures in the region

The primary statistical information reflecting the value of indicators should be subjected to some pretreatment procedures due to specific calculations. In calculating the growth rate and the indicators movement acceleration division operation is used. The problem arises if the time series component is negative or zero. Series reflecting cost indicators of economic activity in the region contain such data. There is a method of median smoothing of time series, which erases this problem.

Formation of economic interests in the region occurs depending on aggregate goals of social and economic development at a specific stage considering the status and problems of socio-economic sphere, and forms a system of defined qualitative and quantitative criteria that reflect its state both statically and dynamically.

Ensuring optimum balance between the state economic interests, economic interests of all actors in the region and their coordination in the interest of regional development is the basic principle and the key to economic security of the region that is an interdependent system of different levels: international, national, actor, personality.

Economic security of the region is the concept which naturally provides the areas with sufficient natural resources in order to create

favourable development conditions and growth through the implementation of balanced regional economic and social policies.

Economic security of the region is a combination of characteristics of the region's economic system ensuring stability, sustainability and progressive nature of the region's development, a certain independence and, at the same time, integration with the state economy in the context of destabilizing impact of various kinds of threats.

Economic security of the region is the ability of the regional economy to function in the regime of expanded reproduction, that is under the condition of sustainable economic growth, to maximally provide acceptable living conditions and opportunities for personal development for the majority of the population.

Economic security at the regional level is also the ability of the economy to withstand destabilizing effects of internal and external socio-economic factors, and also not to pose threats to other elements of the region and the external environment. Economic security of the region is a range of levels of economic and social indicators within which the region develops steadily for a long period of time [26].

The components of economic security at the regional level are:

- productive, characterized by the availability of a recourse base, as well as the conditions that ensure integration processes and formation of the reproduction system taking into account the specialization of the region;

- financial, characterized by the stability of the financial and regional budget system, as well as the ability to ensure socio-economic stability and development of the region;

- scientific and technical, characterized by the dynamics of the implementation of scientific and technological progress in the social and economic sphere, as well as the level of modernization of production, qualification and number of personnel engaged in research and development;

- socio-demographic, characterized by the level of social differentiation, level of poverty, depopulation, access to education, culture, medical care, housing, communication services, etc.;

- restructuring the regional labour market, characterized by sectoral regional specialization, changing the need for specialists of appropriate qualifications, level of unemployment, the system of tasks and functions implemented by specialists;

- public, characterized by the absence of society criminalization, black economy, corruption, etc.



– food, characterized by the level of the region’s food supply and food quality;

– environmental – its violations are manifested in excess of the permissible standards of environmental pollution, as well as in large expenditures for the elimination of the consequences of man-made disasters.

The criteria for evaluating the economic security of the region are given in tabl. 5.2.

Economic security is characterized by the degree of security of interests at all levels of economic relations and the availability of sufficient resources in the state and regions to satisfy their needs and fulfill existing obligations, the state of financial, investment and other systems, as well as pricing system that is balanced, resilient to internal and external negative impacts, the ability to ensure economic stability, effective functioning of national and regional economic systems and economic growth, the quality of economic tools and services preventing the negative impact of possible miscalculations and direct abuses on the economic condition of the state and regions [26, p. 7].

It is proposed to carry out calculation of economic security in the region by a specially established regional center for economic security monitoring.

On the basis of the conducted research on the factors of formation and criteria for determining the realization of regional economic interests and economic security of the region, an inseparable link between these two categories in the process of regional development has been established.

Summarizing the above, it can be concluded that economic interests of the region are a multifaceted phenomenon and is an integral part of the market economy. They are aimed primarily at meeting the needs of the region, as well as the needs of the entire population. This allows concluding that economic interests of the region serve as a creative force for the development of social production and efficient management in general. Successful realization of economic interests is the foundation and guarantee of ensuring the economic security of the region. In turn, ensuring a sufficient level of economic security in the region characterizes the success of implementation of regional economic interests and achievement of the goal of regional development.

Summing up, it should be noted that the main cause of economic crisis in Ukraine and its regions in particular is the lack of a reliable system of economic security that would protect it from external and

Table 5.2

**The criteria for evaluating the economic security of the region**

№	Section	Indicators
1	Socio-demographic	1. Unemployment rate of people of employment age 2. Natural population change. 3. Change in the average age of the population 4. Share of the population with incomes below the minimum. 5. Ratio of spending on social programs to the gross regional product, % 6. Share of salaries in the structure of personal income of the population. 7. Ratio of the minimum salary to the subsistence minimum. 8. Share of the population living in the areas of environmental pollution and natural disasters. 9. Share of serious crimes in the total number of crimes 10. Proportion of crimes solved in the total number of registered crimes.
2	Financial and economic	1. Ratio of the transfers from the state support fund to GRP 2. Ratio of growth indices for the added value of the territory and fixed capital 3. Ratio of taxes and other payments to the budget in GRP 4. Ratio of investments to GRP 5. Norms of personal savings (increase in funds on deposits, in securities, real estate, durable goods)
3	Industrial and technical	1. Degree of depreciation of fixed assets 2. Level of industrial capital investment per 1 UAH of fixed assets. 3. Index of industrial production dynamics 4. Change in GRP 5. Change in labour productivity 6. Change in the share of the employed in science and scientific services in the total number of the employed in the region.
4	Ecological	1. Number of emergency situations and man-made accidents 2. Amount of environmental expenditures for GRP

internal destructive influences and promote the formation of competitive economy based on market principles. Thus, protection of regional economic interests and their successful implementation ensures economic security of the region.

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**COMPLEMENTARY  
FORMAT  
DIPLOMACY:  
ECONOMICS AND  
ECOLOGY**

Globalization and the international integration of the countries of the world expand the economic space of interaction of all mankind. At the same time, new perspectives and opportunities, threats and tests for society on the strength of their understanding of the goals of evolution and knowledge of the laws of nature.

The truth and truthfulness of determining the success of scientific progress and technical achievements in the XXI century is possible and necessary in the focus of comparison of the parameters of economic and ecological development. The attention of scientists and practitioners to this scientific problem testifies to the increase of its significance in consequence of geopolitical trends, contradictions in the ecological outlook of different communities, deepening social conflicts, economic disproportions and increasing waves of migration flows.

Politics and economics are always correlated as subjective and objective, the framework and the basis. Political relations depend on the nature, state and qualitative changes in economic relations. The dynamics of the manifestation of this «tandem» is obvious and depends on the possibilities of achieving balance and compromises at different levels of society interaction. But ecological factors in evolution, life ability and renewal of different social systems have an important role.

World experience shows that all countries are striving for material prosperity, but they always understand the truth of the main attributes of the formation of its stability, preservation and augmentation. The laws of nature make their adjustments to competitive relations, change the ecological outlook, require respect for it and apply high environmental diplomacy. A rational and safe change in the environment of the international community requires a complementary approach to the «economics – ecology» system through diplomatic cooperation and transformation of public relations.

Under present-day conditions diplomacy changes traditional approaches to understanding the possibilities of using the economic

mechanisms of development of countries. It has a great influence on the of disposition political, entrepreneurial, public, official, informal, private and other types of contacts through various technologies of negotiations, mediation, information and propaganda.

The obvious is the intersection of the vectors for complementing and updating the instruments of influence of international actors of diplomacy on decision-making and the behavior of society in the spheres of economic and environmental development.

The interest and requirements of the society to increase the effectiveness of: international environmental management, ecological monitoring and eco-control; integration policy environmental safety; strategy of sustainable development for contemporary and future generations mankind. At the same time, globalization creates conditions, risks, threats and opportunities for the development of a complementary format in diplomatic activities

Important aspects and interesting perspectives of this problem are reflected in the scientific works of famous scientists: H. Creusen, A. Lejour [1], G. Van Bergeijk [2], J. P. Deleage [3], J. E. Carroll [4], E. Jonsson, R. Langhorn [5], R. Bohac, L. Lipkova [6], J. Melissen, M. Okan-Heijmand [7], N. Hruschynska [8], A. Mazaraki [9], V. Tsivatyi [10].

Scientific research of ecological-economic context is versatile, that witnesses about national, regional, international, global problems interrelation. But at present the interdependence of economic and ecological problems is directing competition into the spheres of economic activity rationalization and the optimization of resource-, techno-, and energy consumption. Global trends and interdisciplinary research approaches enhance the content of environmental security and determine the nature of the relationship between the new political, diplomacy, economic and social processes of its formation.

Due to the diversity culture, business, traditions and philosophy of perception of nature in the countries of the world, process of dialogue and mutual understanding includes complementary elements in diplomacy: integration, information, coordination, influence, mediation development (fig. 5.1).

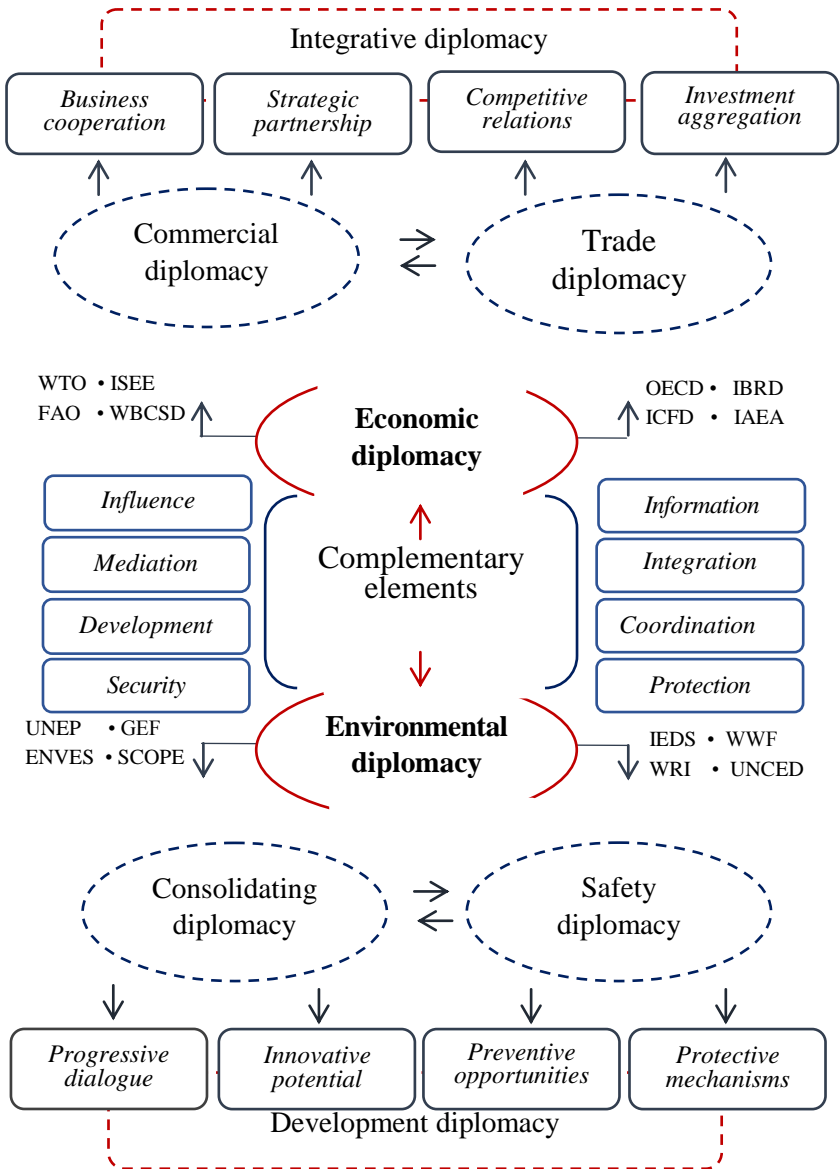


Figure 5.1. Basic complementary elements economic and environmental diplomacy (*Athor's elaboration*)

International environmental cooperation in ensuring is displayed of documents of the United Nations Conference on Environment and Development (UNCED) «Rio+20»<sup>1</sup> and in Declaration of «Millennium Development Goals».<sup>2</sup> Marius E. Enthoven<sup>3</sup> has pointed out rather fairly: «Environmental Diplomacy is a must for all who want to contribute to the implementation of Rio's Agenda XXI towards sustainable development!».

Modern successful formation of ecological security depends on the effective combination of social, economic and financial resources for the development of society. A special role in this process belongs to the business and investment opportunities in the field of integration of various segments of national, international and global markets. The investment development of relations between the countries on environmental protection, eco-security and the formation of the international image is important in the development of society. Improvement of the world market agents' rationality should be aimed at forestalling the emergence of new environmental threats.

Environment is now a key component of international relations and, given the rising attention climate change receives in particular [11], a matter that now has high priority in diplomatic circles. With states in danger of disappearing below rising seas and major disruptions to water supplies and food systems projected for future decades if steps to curb greenhouse gas emissions are not taken soon, environmental matters have become central to contemporary international politics [12].

Development policy and intervention in the form of development aid has been reserved in the past to interactions between state actors such

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<sup>1</sup> *Rio+20* – the relationship between health and sustainable development has three main components: (1) improvements in human health contribute to the achievement of sustainable development and to poverty reduction, particularly through universal health coverage; (2) health can be one of the principal beneficiaries of investment in sustainable development and the green economy; and (3) health indicators provide a powerful means of measuring progress across the social, economic and environmental pillars of sustainable development.

<sup>2</sup> *The Millennium Development Goals (MDGs)* were the eight international development goals for the year 2015 that had been established following the Millennium Summit of the United Nations in 2000. All 189 United Nations member states at that time, and at least 22 international organizations, committed to help achieve the following Millennium Development Goals by 2015: to ensure environmental sustainability, to develop a global partnership for development etc.

<sup>3</sup> Marius E. Enthoven – Director-General for Environmental Protection, Ministry of Housing, Planning and Environment (Netherlands).



donor countries (developed countries) and beneficiary countries (developing or transition countries). While non-governmental organizations have always been active in the field of development aid as providers of services, they have not openly become political actors in the development policy field until recently. The purpose of this article is to define the new term «development diplomacy» and to show how this broadening of mandate affects the policy dialogue and policy negotiations in international development [13].

The environment is borderless and the issues continue to be addressed at a multilateral level. The *United Nations Environment Programme* (UNEP) and *Environment and Security Initiative* (ENVSEC), have a good groundwork for combating environmental issues such as multilateral engagement with organizations like the United Nations Development Programme, Organization for Security and Cooperation in Europe and even the North Atlantic Treaty Organization.

The ENVSEC has worked on over 150 million products, utilizing projects and maps for their work. Environmental diplomacy is vital to security and post-conflict resolution, as 40 percent of internal conflicts are related to natural resources and environmental issues such as food and water security, land ownership, population growth and the new scarcity. Environmental issues act as threat multipliers and can affect economic security as well, making trade difficult and disrupting the economy in a conflict-ridden area [14].

The UNEP strives for transparency and cooperation between nations and organizations, and they advise to incorporate environmental issues into working negotiations rather than treat the environment as a separate issue. An example of how economic and environmental security are related is the case of rare earth minerals, which are components in many of our electronics. Mining and accessing these minerals is extremely destructive to the environment, however, and has been outlawed in Australia and the United States. The only country that still mines these minerals is China, and this severely affects their air quality.

Since China is the only one still mining these minerals, however, other countries are economically dependent. This is an example where economic and environmental security work against each other. UNEP live online is an area where nations can share information, and it offers a transparent tool for participating members to work cooperatively toward environmental security and can act as a catalyst for economic diplomacy as well. Environmental security can be extremely significant in post-conflict resolution and economic diplomacy. After a conflict, fighters

must return home and often find themselves in an economically insecure situation where their land is taken and they are out of work.

Cooperative negotiations between economic diplomacy, environmental diplomacy and development are vital. ENVSEC and International Center for Trade and Sustainable Development provide a good example of how these areas can interact with different actors to combat environmental issues through means of development projects. Environmental diplomacy will not thrive without economic assistance; economic diplomacy will not be sustainable unless it addresses environmental security [14].

The *Institute for Environmental Diplomacy and Security* (IEDS) is a transdisciplinary research center, based at the University of Vermont (UVM), aimed at the study and practice of techniques that resolve destructive environmental conflicts, and to using ecological processes as tools of peace-building. IEDS were founded under the auspices of the James M. Jeffords Center at UVM in 2010, which is named in honor of former US Senator James Jeffords. Mission and programs IEDS operates within a framework of 3 broad themes that capture its mission and vision:

1) Borderlands: Boundaries in physical and cognitive space can be defining themes of diplomacy. IEDS explores how human territoriality can be constructively configured so geopolitical boundaries work within ecological principles.

2) Resource Values: Natural resources have values in both economic and ecological terms, and often a disjuncture in these values leads to conflict. IEDS works to find effective mechanisms for ascribing, communicating, and implementing values that minimize conflict.

3) Pragmatic Peace: Public policy has often been polarized between «hawks» and «doves», with each side dismissing the other's motives and methods. IEDS works to reconcile these differences by promoting a practically implementable vision of peace.

The discourse «economic diplomacy» and «environmental diplomacy» are progressive approach to reorienting global growth on more sustainable pathways. The monitoring of ecological development is carried out by applying numerous specific indicators referring to particular spheres as well as applying aggregate indicators, or several sub aggregate indicators. But the transition to a green economy will require significant public and private investment, as well as commitments from national leaders to promote the right mix of fiscal incentives to accelerate green growth and ecological security.

In this context, the *Global Green Economy Index (GGEI)* is a communications tool, to empower policy makers, international organizations and the private sector with a reference point for both national performances in the green economy and how experts rank that performance over time. The GGEI now covers 80 countries and 50 cities. It continues to track how investors rank the appeal of different markets as targets for green investment.

The performance index of the 2016 GGEI is defined by 32 underlying indicators and data bases consisting of one of the four main dimensions of: Leadership & Climate change (head of state, media coverage, international forums, climate change performance); Efficiency sectors (buildings, transport, energy, tourism, resource efficiency); Markets & Investment (renewable energy investment, cleantech innovation, corporate sustainability, green investment facilitation); Environment (agriculture, air quality, water, biodiversity, fisheries, forests). Each market is different with distinct investment opportunities, requiring a tailored approach to develop the right communications strategy.

While the majority of the sub-categories in the GGEI are based on quantitative datasets – including renewable energy investment country attractiveness and cleantech innovation and commercialization – there is also a qualitative score for each country around its efforts to facilitate green investments.

The GGEI qualitative score assessing national performance at facilitating green investments is based on the five factors below:

- «Green focus» (The hierarchy of sectors and investment opportunities signals to the marketplace national priorities. By prominently displaying green business opportunities, countries signal that they are dedicated to developing them);
- «Presentation of related national initiatives» (This background plan further signals that nations are serious about pursuing green economic growth and supporting the businesses that enable it. It can also provide tangible resources for entrepreneurs who may be considering joint ventures in the market);
- «Market data provided» (Investors need data to evaluate investments and having these relevant data clearly displayed shows transparency and a willingness to support investors with tangible tools as they evaluate their options);
- «Interactive & social media outreach» (When approached strategically, digital and social platforms enable cross border

communications and information exchange in new and useful ways. Agencies that use these tools properly can advance their attractiveness as a green investment target and ecological security);

– «People» (Despite the power of digital these days, people still matter a lot. Linking individuals to different green market segments offers investors comfort that they can follow up with a person to discuss more nuanced questions. New investment opportunities in the market should ensure economic progress of mankind, increase ecological security and global development of society).

Green markets and investment flows have always been a central component of the GGEI, economic and environmental diplomacy. For example, in this GGEI edition, we started with a simpler approach to measuring corporate sustainability. Referencing the CDP (formerly Carbon Disclosure Project) database, we generated a score for each of the three largest companies in each country covered by the GGEI.

This score looked at whether they provided climate and supply chain reporting to the CDP and if they had been recognized as an «A-List» company. While the GGEI approach does not quantitatively score the carbon and natural capital footprint of these companies yet, it serves as a signal around whether corporate sustainability reporting is starting to gain traction in each country, something that will hopefully lead to more robust data reporting in the future. Our findings are instructive. In many countries with otherwise lackluster GGEI results – like the United States, Australia, Japan and South Korea – the corporate sector is more engaged with sustainability reporting. In many developing countries, there is limited evidence of sustainability reporting from top companies. The chart below illustrates the results from this topic on the GGEI for companies based in countries with a high reliance on fossil fuel extraction, as well as for the top performing countries of Germany, Switzerland and the USA (fig. 5.2) [15].

The effectiveness of environmental diplomacy in the sphere of economy and ecology is possible provided that the institutions: Organization for Economic Cooperation and Development, WWF, International Society for Ecological Economics, World Business Council for Sustainable Development, World Trade Organization etc.

As a result, complementary format of diplomacy is integration.

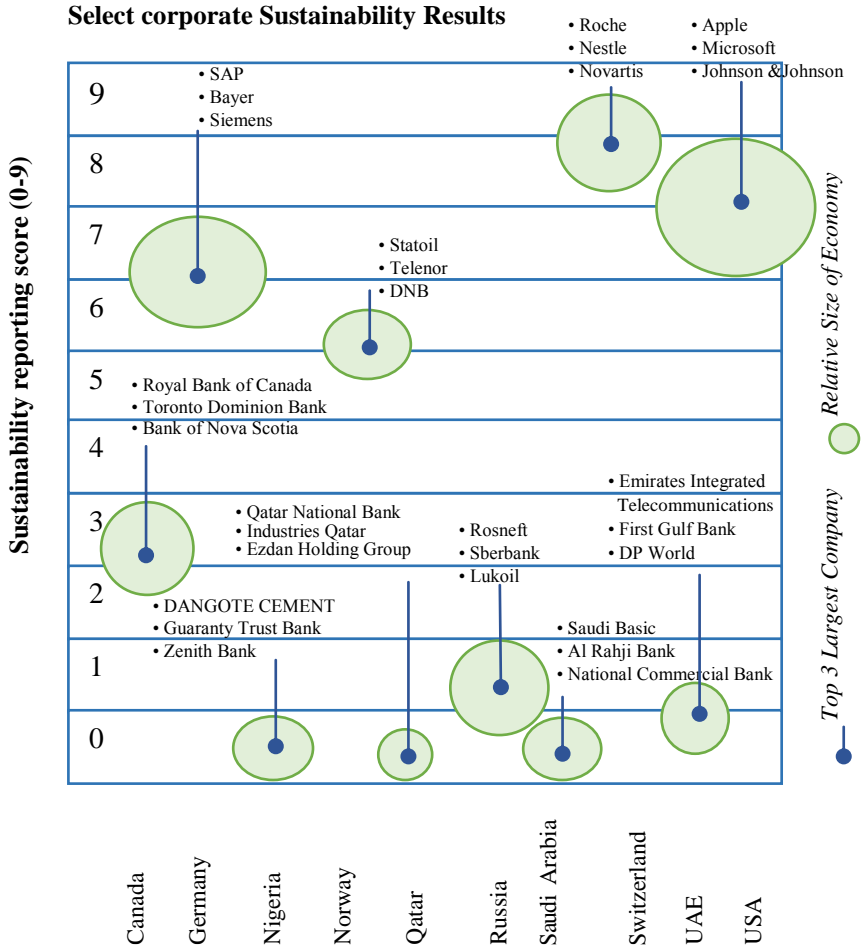


Figure 5.2. Large companies must prioritize sustainability reporting the CDP and similar initiatives (*The Global Green Economy Index 2016*)

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**THE PROBLEMS OF  
ENSURING ECONOMIC  
SECURITY REGIONS OF  
UKRAINE IN CONDITIONS  
OF DESTABILIZATION**

In the current economic conditions economic security subjects' economy becomes of paramount importance for economic development. Ensuring economic security is the basis of sovereignty, competitiveness, the country's defense and so on.

The problems of economic security determine the relevance of creating institutions and mechanisms of ensuring it at different levels. One of the most effective mechanisms to ensure economic security could be the introduction of strategic management of economic security at regional level.

Some issues of economic security are represented in the works of foreign scientists A. Smith, D. Ricardo, T. Malthus, D.-S. Mill, A. Marshall, A. Pigou, J. M. Keynes, E. Laslo, A. Maslow, R. McElveyn, R. Miller, P. Samuelson and others.

Problem solving management of economic security have dedicated their works by such scholars as: O. Amosha, D. Burkaltseva [4], Z. Varnaliy [5], V. Heyets, Golikova T. [7], O. Glovchenko [8], Z. Gerasymchuk [6], A. Gumenyuk [9], O. Datsiy, Ya. Zhalilo, I. Krylenko [10], M. Hvesyk [3], V. Prikhodko [2] and others.

But despite of the relevance of this subject and a large number of publications, the problem of developing effective mechanisms to control economic security at the regional level as components of national economic security is underdeveloped and requires further research.

The economic development of the country and its regions are directly related to the general trends of international security. Current conditions characterized by poor state of economic security,

accompanied by international conflicts and all sorts of aggression. As for Ukraine, it is primarily caused by the antiterrorist operation in eastern Ukraine and the annexation of the Crimea, which led to the loss of Ukraine share of natural, labor, industrial, recreational and economic potential.

All this caused the destabilization of economic situation that can be characterized in that:

- been lost a part of foreign exchange earnings in the country;
- was deteriorated energy security, investment attractiveness of the country and its regions;
- was disrupted credit and banking system;
- there was a decline in economic activity in all regions and their subjects and reduce tax revenues and fees to the State Budget of Ukraine, the increase in financial load on the budget of state social funds and other forms of economic destabilization.

Under the UN report about the situation in the east, as at September 1, 2015 in Ukraine killed at least 7962 people in the military, civilians and militants, were wounded different severity 17.8 thousand people [11]. The loss of Ukraine from the anti-terrorist operation in the east the following:

- in housing and infrastructure, according to experts, the amount of losses ranged from 15.0 to 21.6 billion USD. [13]. In the Donetsk and Luhansk regions destroyed and damaged more than 11,268 houses (9579 and 1689 respectively);
- without gas remaining 52.66 thousand subscribers, of which 43.3 thousand in Donetsk, Luhansk region – 9360 subscribers;
- damage to water, sanitation and electricity are measured in Donetsk and Luhansk regions at 369 million UAH and 123 million UAH respectively, that creating inconvenience to 4.5 million people [13];
- in the health care system in the Donetsk and Luhansk regions total losses of 6.5 bln. USD. In the two areas destroyed 60% of health facilities (in Donetsk – 41, Luhansk region destroyed 19 health facilities), and 85% of the population has no access to the services of highly specialized medical care. For example, the volume of immunization services in the Luhansk region decreased by 30.5% [12];
- an amount of the loss in the education system is 4.9 billion USD. It has been damaged and destroyed more than 10 thousand objects of education in the Donetsk region, including 176 schools, 86 kindergartens, 28 vocational schools, 19 universities and 26 objects of



physical culture and sports. It has been destroyed and damaged schools and 40 secondary schools in the Lugansk region [12];

- in transport infrastructure, railway infrastructure damages are 860 million UAH – 1610 damaged facilities; damage road sector - 4.8 bln. UAH; destroyed more than 1,700 km public roads, 33 bridges, over 2,800 meters of bridges; destroyed airport “Donetsk”, which for the modernization of Euro 2012 was spent 1.5 bln. USD; destroyed or damaged 28 air traffic control facilities [12];

- in agriculture, due to the loss of land resources, the total loss in the agricultural sector is approximately 520 mln. UAH in the Donetsk region, and in the Luhansk region is approximately 1179 mln. UAH [12];

- in manufacturing, there are significant losses in the energy sector, especially due to the fact that 92.4% of the total coal resources are located in the Donbass region, 85 of 150 mines, which representing 57% of total were to uncontrollable Ukraine government territories, which being put out almost 100% of anthracite – coal power [15];

- it has been suffered heavy losses in the environmental sector as a result of damaging a number of environmentally dangerous metallurgical and chemical industries, leading to accidental emissions and discharges of harmful substances; it was flooded in the Donetsk region 33 town and village area of 23 thousand ha.; in the Luhansk region – 88 villages, 40 urban areas within and townships, and potentially flooded land area reaches 40 thousand ha. It was affected surface water facilities and engineering structures intended for supplying drinking water to the population. It was violated landscapes nature protection areas and national parks [9].

According interagency working group that works under the Ministry of Justice of Ukraine on damages recovery caused by the annexation of Crimea cumulative losses totaled 1 trillion 200 bln. UAH [15]. In particular, these include losses of social infrastructure, such as:

- transport infrastructure in Ukraine has lost 654 km railway, 6265 km of motorways, 5 commercial sea ports, which negatively affected to the freight and passenger turnover country;

- in the area of science – Kyiv National Taras Shevchenko University has lost the Crimean Astrophysical observatory and lost nearly 100 research institutes and universities;

- it has been lost 39 museums in the cultural sphere with 1,237,640 objects that belonged to the state share of the Museum Fund of Ukraine; there are still 3800 cultural monuments in the Crimea, including town

Chersonese and its Chora – one of seven Ukrainian objects included in the list of Heritage Site by UNESCO [10].

Thus, the analysis shows that after the destruction of social infrastructure and caused considerable damage in Donetsk and Luhansk regions, and as a result of the annexation of the Crimea, it has been significantly deteriorated not only economic but also social and environmental condition.

Access to the health and education services was complicated, became worse environmental condition areas, disrupted transport infrastructure and so on. All this proves once again that the development of social infrastructure of regions of Ukraine is in the economic destabilization.

In the current economic conditions great importance is the economic security of business entities of the national economy at the meso- level. Meso- level can be studied both sectoral and territorial aspects. In our view, it is necessary to emphasize the regional aspect, which is the territorial element, that will contribute to their development and reduce differentiation between regional socio-economic development in the country.

The exogenous factors of macro- level perform impact at the regional level of economic security of business entities of the national economy. These include:

- external aspects of socio-economic development of the country as a whole and its regions: the policy of export products and raw materials, imports of energy and other resources from abroad and regulate their prices, exchange rate adjustment;
- general economic development aspects the country: the impact of inflation, the phases of the economic cycle, living standards and consumer demand;
- regulatory impact, regulatory and legislative base and its changes in ensuring economic security entities of the national economy, taxation, etc;
- an innovative component of socio-economic development: the rate of technological progress, the state of development and implementation of innovative technologies;
- natural ecological character of the impact on ensuring economic security entities of the national economy, changing climatic and environmental conditions and ecological environment, environmental control settings and more [1; 18].

The available resources and potential possibilities the region directly

affect at the regional level of ensuring economic security of business entities. Meso- level factors that ensuring economic security entities of the national economy include:

- the nature of competition in regional and interregional markets; the potential development of markets and their characteristics;
- regional differences, resourced development, climatic conditions, territorial position;
- branching and development of transport and logistics infrastructure;
- socio-economic indicators of regional development, standard of living, employment, income regions.

Threats to economic security, resulting in some areas, can reach their adverse effects and others, which require greater attention to the regional policy of socio-economic development to ensure economic security. This, in turn, will increase confidence in the government and more efficient use of resources in the region, reducing the differentiation of socio-economic development of regions.

It is necessary, in our view, to pay more attention to monitoring, forecasting and publication of results of specific regional interest and potential for more complete consideration existing and potential threats to economic security.

Information awareness will promote not only the development and implementation of strategic measures to ensure the economic security of the economy at regional level but also increasing the efficiency of the national economy business entities. It must take into account the existence and emergence of new threats to economic security and take into account the short-term or long-term nature of these threats and opportunities to prevent them in that period when determining the mechanisms of ensuring economic security.

In order to ensure economic security of the national economy subjects suggests the establishment of regional government economic security department of the national economy business entities, which will contribute the development strategic measures and their implementation to ensure economic security.

Overall ensuring economic security business entities of the national economy at the meso- level requires:

- the establishment and development of adequate institutional environment;
- the effective implementation of the monitoring and forecasting preserve economic security entities;

– cooperation and coordination of executive authorities and business entities on the implementation of the developed measures and prevent threats to economic security.

In today's economic conditions acquires actuality problem with ensuring economic security of regions of Ukraine. One step towards achieving economic security can be developing an appropriate measures system to ensure the economic security of regions. In turn, the system measures ensuring economic security of regions have to corresponding of certain characteristics, namely:

– manageability: system security measures of ensuring the economic development of regions, like any other system of control must have property that gives possibility of the system to adequately respond to any action in relation to it;

– flexibility that provides the system's ability to adapt to any changes under the influence of different nature factors without structural changes in the system itself;

– mobility – providing the ability of the system ensuring economic security of regions to implementation of targeted measures, making structural changes and active rebuild, acting in response to external disturbances and various factors deformation system;

– elasticity, which is considered as the ability of the system ensuring economic security of regions neutralize external disturbance experiencing this specific deformation and / or losses can be determined by the level of elasticity in achieving the targets ensuring economic security of regions, excluding the full default goals;

– efficiency – provides optimization and rationalization of costs for the organization and functioning of the ensuring economic security system of regions and most measures of economic security;

– timeliness, characterized by the ability of the system to ensure the economic security of regions as soon as possible to solve the problem;

– informativeness – provides for sufficient objective and relevant information for making decisions on measures to ensuring economic security of regional development, as well as the results of these measures;

– variability – allows selection of options for choosing activities ensuring economic security of regions and their adaptation to the specific conditions of regions based on their characteristics;

– perspective – suggests that the formation of measures to ensure the economic security of regional development should take into account the future prospects of the regions with the predictability of both regional

and external changes;

- scientific – based on the development of measures to create a system of ensuring economic security of regions on the basis of science and innovation in the field of research.

Thus, the system measures to ensure economic security of regions should satisfy the following properties as: manageability, flexibility, scientific, mobility, flexibility, efficiency, timeliness, informativeness, variability and perspective. Taking into account these properties will contribute to efficient system of security measures ensuring economic development of regions.

Modern conditions of economic destabilization are more disadvantaged phenomenon than the economic crisis because it brings worsening socio-economic problems and political intensity system.

Modern economic destabilization is manifested not only in a negative impact on the development of social infrastructure, falling in business activity in the regions of Ukraine, worsened energy security, investment attractiveness of the country and its regions, increasing the financial load on the social funds and the state budget, as well as the losses of Ukraine, objectives annexation of the Crimea, according to expert estimates of 1 trillion 200 bln. UAH [15; 16].

There was destruction of infrastructure, including social, in the Donetsk and Luhansk regions, which resulted in estimated losses:

- in housing and communal services, infrastructure in the amount of 15.0 to 21.6 billion USD;

- health system – 6.5 billion USD;

- in the education system 4.9 billion USD[];

- in transport infrastructure railway infrastructure losses are 860 million UAH; road maintenance – 4.8 bln. UAH [14; 17];

- in the environmental field was damaging a number of environmentally dangerous metallurgical and chemical industries that has led to accidental emissions and discharges of harmful substances, violation landscapes nature protection areas and national parks.

The policy of ensuring economic security business entities of the national economy at the regional level simultaneously realizing interests include: state on regional development and ensuring economic security and the region corresponding to the internal interests of the regions.

Taking into account impact of exogenous factors on economic security in the region, the development and implementation of measures to ensure the economic security business entities should take place in keeping with implementation of active social and economic policy,

increased activity in state investment, innovation, financial, monetary and foreign area.

As well as government policy should promote the effectiveness of regional policy in place that aims to ensuring economic security business entities of the national economy and socio-economic development in general. This approach, in our view, designed to take into account the presence of specific interests of the state and the regions and promote economic security business entities of the national economy.

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## Chapter 6

### **EUROPEAN INTEGRATION: PROBLEMS OF ADAPTATION, COMPETITIVE ADVANTAGES AND PROSPECTS FOR UKRAINE**

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**AGRARIAN AREA OF  
PRODUCTION: ROLE IN  
DEVELOPMENT AGRO-FOOD  
MARKET OF UKRAINE IN THE  
CONTEXT EUROPEAN  
INTEGRATION**

The geographical proximity and close economic ties of Ukraine with the countries of Europe give grounds to hope for significant prospects for development of the national economy in conditions of European integration. The enterprises of agro-industrial complex and agro-food market of Ukraine play an important role in these processes.

The study of this problem requires the development of organizational and economic aspects of the production of agro-food products, the study of the experience of countries in Europe and the world, the formation of the concept of agrarian policy of the government in the context of tasks and principles of the European Community. These aspects of the problem relate not only to scientific, but also practical tasks, first of all, the need to draw up long-term forecasts of the impact of the agrarian policy of the EU countries on reforming the structure of agricultural production in Ukraine, analyzing trends in development of the national agro-food market.

In the modern economic literature, there are many publications devoted to the search for ways to improve the efficiency of agricultural production and provide the national food market with commodity resources, as well as the prospects for the extension of the integration of agricultural production in Ukraine and the EU countries. At the same



time, such aspects of the problem as the organization of market monitoring by direct producers of agricultural products, raw materials and ready-to-eat food remain unresolved; estimation of market demand; reserves of formation and optimization of incomes of agricultural commodity producers and others like that.

In our opinion, is the coverage of the world experience in organizing monitoring of the market for the main types of agricultural products and the prospects for its introduction by Ukrainian producers, the analysis of agrarian production and agrarian policy of the EU countries; research of problems and ways of their decision on optimization of resource maintenance of the national agro-food market of Ukraine.

The organization of market monitoring is important for agricultural producers. In world practice, farmers, having stable consumer markets, use the services of specialized structures that provide them with the appropriate sales functions, or unite, create cooperatives and promote their products to the end user through joint efforts. By the way, there are such trends in Ukraine.

Well-known is the fact that Ukraine is one of the leading producers of grain. However, we also traditionally produce fruit and vegetable products. Now the production volumes are provided by small owners, who find it more difficult to find sales markets, requires elaboration of individual sales systems, formation of their economic efficiency.

The production of fruit and vegetable products is seasonal, and the market requires it for a year. In Ukraine, the problem of matching the availability of products with the existing consumer demand is solved by selling fresh produce during the harvest season and processing the rest into canned products or long-term storage products. However, the technical storage conditions do not allow to fully providing consumers with fresh products during the year. Unlike in Ukraine, European consumers receive, thanks to innovative technologies, fresh tomatoes, strawberries, sugar corn, etc. any time of the year. Along with this, there is a significant demand for processed fruit and vegetable products.

The organization of providing the market with fresh products during the year forces the trade structures (in fact, acting as a wholesale link), their representatives to create procurement points in different climatic zones and different countries. Some structures conclude agreements on the packaging of fresh vegetables and fruits. Such a practice of receiving fruit and vegetable products both from large farms and from the population existed in Ukraine as well: it is a system of procurement and processing complex of consumer cooperation, which is now practically

destroy, and its remnants in terms of the level of technological and technological base development and applied technologies are often primitive. This leads to the creation of obstacles to the sale of products by producers, especially hard-to-reach and remote regions, reduces motivation and predetermines a decline in the volume of production not only of fruits and vegetables, but also of other agricultural products.

Due to the expansion of the activities of small businesses in the trade of the population and the procurement and processing of agricultural products and raw materials, the strengthening of the technical and technological base in Ukraine has already formed a complex of enterprises engaged in harvesting, storage, processing and trade of agricultural products.

An important factor in shaping the competitiveness of Ukrainian fruit and vegetable products is to ensure its proper quality. The main source of increased yields and quality improvement is the introduction of productive plant hybrids, many of which can withstand the diseases of the fruit. Important is also the use of drip irrigation, the justified use of pesticides and fertilizers, primary processing and proper packaging of products.

In the livestock sector of the agrarian production of Ukraine, the most important now is the problem of saving livestock and poultry, its gradual increase, and the development of fodder production for animal husbandry. A significant part of the livestock is intended for the production of meat in the households of the population, small farms. So, the welfare of these categories of farms is determined by their ability to effectively manage livestock.

The qualitative characteristics of meat breeds of animals undoubtedly affect the quality of raw materials for meat processing enterprises; it influences the formation of competitiveness. The genetic base of the livestock requires further development; it requires considerable investments and extensive scientific research.

The conditions of keeping and growing cattle in Ukraine often negatively affect the efficiency of the industry and limit the potential of animals, increasing their daily weight, causing a deterioration in productivity and high mortality of livestock. Limited access of the Ukrainian livestock industry to international markets is largely due to imperfection of the management system.

Low quality and insufficient amount of fodder for livestock have a very negative effect on the animal's conditioning parameters. The efficiency of the feed production system for both cattle and pigs in

Ukraine depends entirely on local conditions for obtaining forage and cereals. Enterprises for the production of agricultural products and raw materials due to lack of funds cannot move to the use of innovative technologies for fodder production, improve the system for obtaining feed.

Need to strengthen the measures aimed at optimizing the sale of livestock products, should make fuller use of the potential of public auctions in the regions of Ukraine.

The solution of the problem of raw materials supply for meat processing enterprises calls for the innovative development of slaughter and meat processing technologies. The current state of the technical and technological base of meat processing enterprises does not always allow achieving quality standards, compliance with the requirements for the production of sausages and meat products, to some extent, violates the ecological safety of consumption of livestock products.

Now in Ukraine there is no clear classification and standards for the production of meat-processing enterprises and the technology of its production, which adversely affects the determination of its quality and cost. The problem is exacerbated by the lack of reliable certified state laboratories to determine the quality of livestock products and raw materials. Limited access of direct producers to the necessary information on quality standards, environmental safety of production and the like.

European countries for Ukraine act as important trade partners in the field of bilateral import-export of agricultural products, while they are active competitors of Ukrainian exporters in international sales markets. In addition, the countries of Europe for Ukraine are a source of effective technologies in the production and trade of agricultural products.

Traditionally effective agricultural sector, economic relations of European countries with Ukraine, which are all strengthening, define the countries of Europe as an object of close attention for operators of the Ukrainian agro-food market.

The importance of the problem and prospects for Ukraine's accession to the EU necessitate consideration of certain parameters in the agricultural production of the countries of the European Union. Currently, in rural areas, covering about 90% of the entire EU territory, more than half of the EU inhabitants live, most of whom are directly or indirectly link to the agricultural sector.

The main types of agricultural products that are produce in the countries of the union are wheat, barley, oilseeds, sugar beet, grapes,

milk and dairy products. Highly developed is the cultivation of cattle, sheep, pigs and poultry, as well as fishing.

The EU is one of the world's largest producers, exporters and importers of agricultural products; it should be noted that, in terms of value, the import structure is dominated by commodities, while food products predominantly process exports. By the way, grain is the second article of Ukrainian exports to the EU countries [1].

Despite the relatively low share of agriculture in the GDP of the EU countries (in 2014, from 5.36% in Romania to 0.68% in the UK) [2], the role of this sector of the economy in the member countries is significant. This role is determined by the fact that the agricultural sector of the EU countries provides food security for almost half a billion people living in the EU countries. In addition, agriculture directly relates to the economic interests of millions of people involved in the production, processing and trade of agricultural products. Agriculture solves such socially important tasks as the distribution of natural resources, the maintenance of economic conditions, the preservation of rural landscapes, and the like. In this aspect, the functioning and development of the agricultural sector in the EU is a matter of particular concern for both the national governments of member countries and non-state actors.

In 1962, the Common Agricultural Policy of the countries of the European Economic Community was developed, which consisted of comprehensive support of farms and ensuring the self-sufficiency of the domestic agricultural producer. Within the framework of the Common Agricultural Policy, a special fund for support and guarantees to agricultural producers was created. Such a fund accounted for about 50% of the EEC budget and was directed to direct and indirect subsidization of farmers, to restructuring production and management, the introduction of new production technologies and the like. The only agricultural policy from the outset provided for a complex system of food prices: a member state of the union purchased agricultural products at guaranteed prices that provided coverage for production costs, and then food was sold on the domestic market at retail prices available to consumers. In addition, provided for consumer subsidies for the purchase of food. A system of intervention purchases and warehouses of agricultural products was formed.

Therefore, the initial stage in the functioning of the Common Agricultural Policy was to provide citizens with sufficient food at affordable prices and to ensure an adequate standard of living for rural commodity producers. In the future, the problems of improving and

ensuring the quality of products, ensuring the harmonious development of agricultural regions and enterprises, preserving the ecology, etc.

The experience of the EU member states is extremely important for Ukraine, since the state's trade policy plays a decisive role in the globalization processes in the world and domestic markets, it can influence the determination of the directions of use of domestic resources and the country's ability to take advantage of its own economic advantages. In the context of increasing globalization, the country should integrate into the world economic community and its trading system.

In the Ukrainian economy, agriculture and trade in agricultural products play an important role. In our opinion, the Ukrainian government regards agriculture as a strategic sector, it requires considerable state support.

Prospects of the agro-food market of Ukraine in the context of European integration, for national agriculture and the economy as a whole can be such.

Thus, modern economic challenges require adaptation of agro-food policy to the requirements of existing agreements on agriculture, sanitary and phyto-sanitary measures, in Ukraine, requires institutional reforms. The economic policy of Ukraine and its institutional structures should be brought into line with the general norms of trade and provision of services with the corresponding rights to protect intellectual property.

Prospects of Ukrainian agrarian production in the context of European integration of a certain degree are based on soil fertility (where loam predominates) and the resources needed to implement effective nature management. Modern studies convince that the potential for the development of agricultural production is completely determined by the natural physical reserve of resources, the totality of which can be viewed from the perspective of an agricultural enterprise as a potential opportunity to realize the goal of its activities. However, the ability to provide such performance results to agricultural enterprises that meet the needs of consumers in the market depends on the perfection of the management system for resource managers.

The natural resource potential of agrarian enterprises is understood to mean the aggregate of natural resources and natural conditions are within certain geographical boundaries and ensure the satisfaction of economic, ecological, social, cultural, health and aesthetic needs of all participants in the economic process of the agrarian sector.

It should be noted that chemical means are intensively used in agriculture, but their uncontrolled use, violation of storage rules lead to the accumulation of residual amounts of pesticides and nitrates in crops, fodders, water bodies, negatively affects the health of people.

An important role in increasing the fertility of soils belongs to perennial grasses, the cultivation of which allows solving a complex of important problems. In the conditions of a scarcity of resources in agricultural production, the search and use of non-traditional sources of soil replenishment with organic matter for the purpose of preserving and reproducing its fertility and obtaining sustainable yields is of great importance. Given the reduction in the number of livestock, an increase in the share of industrial crops in the structure of cultivated areas, recycling of plant remains should be considered relevant today. The way to solve these problems – the use of by-products of crop production, remains on the field after harvesting for fertilization.

Since the specificity of agricultural production is the widespread use of natural resources, then, accordingly, the danger of environmentally inefficient farming is growing. Thus, considering the prospects of national agro-food production in the context of the European integration, it should be borne in mind that the resource potential is the ability of economic entities associated with ensuring the effectiveness of their functioning on the principles of preserving the environment.

Summary the above, it should be noted that Ukraine has a powerful resource potential of the agricultural sector, but the organizational and economic mechanism for its use is imperfect, which hinders the integration of the Ukrainian economy with the economies of the EU member states. The agricultural policy of the government of Ukraine requires further improvement.

Further scientific research, in our opinion, should include studies of the directions of the influence of agro-industrial production on the formation of Ukraine's European integration links, the provision of the agro-food market with its own commodity resources.

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**INTEGRATION OF  
EUROPEAN  
LEGISLATION OF  
SOCIAL SECURITY OF  
CERTAIN CATEGORIES  
OF CITIZENS IN  
UKRAINE**

Today Ukraine is on the way of integration into the European community, the process that requires reforms and adaptation of a large part of the national legislation system to European standards. That is why, the main direction of the integration process of Ukraine towards the European Union (EU) is the adaptation of its regulatory framework to the EU law, human rights guaranteeing and the adaptation of Ukraine's social policy to EU standards.

European standards in the field of social protection are standards of social security fixed by the international regulations of the EU and EU member states. They should be taken into account when making new amendments or inserting some in the already existing legislative acts of Ukraine on social protection.

According to the Law of Ukraine "On the State Program of the Ukrainian Law Adaptation to the European Union Law" № 1629-IV of March 19, 2004, the aim of the Ukrainian legislation adaptation to the European Union legislation is to achieve the compliance of Ukraine's legal system **acquis communautaire** (hereinafter *acquis*) taking into consideration the criteria put forward by the European Union to the states that intend to join it [1].

The EU social policy during its development has been based on the two main models: a neo-liberal model and a social justice model. The modern European social model is based on the model of social justice. It requires the unity of state's actions and civil society aimed at meeting basic material needs of all citizens, their participation in society life and social cohesion strengthening [2].

The availability of the right to a kind of social protection and its provision in the EU depends on the size and number of contributions made to relevant institutions of social protection. The right to social security (pension or assistance) also may be connected with the fact of

living in one of the member countries. Each country has its own legislation on social security. This issue is reflected in the Treaty on the European Union, concerning the social security adaptation to migrant workers protection and its compliance with the two basic principles: creating opportunities for acquiring and retaining the right to social benefits by taking into account all the periods stipulated in the laws of individual countries and providing benefits to people, who are residents in the territory of EU member states [3].

In general, the term “social protection” (as defined by the International Labor Organization) provides general basic social support to all citizens, regardless of their contributions or employment service duration. Thus, the ILO Convention of 1952 and succeeding international labor standards contain nine basic components of social protection: medical assistance, sick pay, unemployment benefits, maternity protection, assistance to the families with children, occupational injuries and diseases, disability allowances, age aid and survivors’ benefits. In other words, there is a broad interpretation of the existing social protection as social support provided to the entire population and aimed at social security.

In Ukraine there are two main approaches to the concept of “social protection”. Under the first approach, social protection is treated as a broad concept and concerns all social services in the country. Social security in the broad sense includes social assistance, social security, social insurance, and active measures (employment policy, combating unemployment, etc.). In other words, this state activity is aimed at ensuring the process of formation and development of a fully functioning person, the identification and neutralization of negative factors affecting it, creating conditions for self-assertion and personal identity.

Social protection in the narrow sense includes primarily a limited set of actions aimed at assisting in overcoming life obstacles.

The Constitution of Ukraine [4, art. 46] guarantees the right to social security, particularly to assisting citizens in case of total, partial or temporary disability, widowhood, unemployment under circumstances beyond their control, and also in old age or in other cases provided by the law. The fundamentals of the formation of the social insurance system in Ukraine were laid in the Fundamental Principles of the legislation on compulsory state social insurance, adopted in January 14, 1998. So, it is formalized in legislation that *compulsory state social insurance* is a system of rights, duties and guarantees that provides



social protection, including material support of citizens in case of illness, total, partial or temporary disability, widowhood, unemployment under circumstances beyond their control, and also in old age and other cases provided by the law, at the expense of funds that are set up by means of premium payment by the owner or authorized body and individuals as well as budgetary and other sources established by the law. The legislation of Ukraine provides the following types of compulsory social insurance:

- pension,
- temporary disability and expenses occasioned by the burial,
- health,
- industrial accidents and occupational diseases that caused disability,
- unemployment.

The adaptation of the legislation of Ukraine is a systematic process that includes several successive stages, each of which should reach a certain degree of compliance of the legislation of Ukraine to the EU acquis. The priority areas of the legislation adaptation at the first stage of the Program included:

- Customs Law;
- Corporate Law;
- Banking Law;
- Corporate Accounting;
- Taxes, including indirect;
- Intellectual Property;
- Health care;
- Financial services (includes services in the system of funded pensions);
- Government procurements;
- Health and life protection of humans, animals and plants.

In the context of social security, legislation reforming in the sphere of labor safety, wages, labor market flexibilization and also social and pension security is among the most urgent, because, as international experience shows these processes are among the crucial ones, not only to successfully pass the phase of European integration, but especially for the state economy development as a whole. The legislation adaptation on labor protection and labor relations is a priority, due to the fact that social and labor rights of citizens of EU member states are of great significance and a high level of workers' rights application is required. On the other hand the labor legislation adaptation will allow reforming

the entire labor market in Ukraine and implementing its potential, using EU opportunities and facilities, which in turn will lead not only to the change of the level of human rights observance and realization, but also to the rapid economic development.

The issue of wages at the EU level is governed by the rule of equal value (the formula of equal wages for females and males for the same work and for work of equal value), and the protection of the workers' right to wages in case of the employer's insolvency. The provisions of Directive № 2002 / 74 / EEC reflected in the legislation of Ukraine are still open provisions concerning the duty of member states to create guaranteeing institutions (providing guaranteeing funds) that are responsible for the wages payment suppose the employer is insolvent. The mentioned provision is contained in the Preamble of Council Directive № 2002 / 74 / EEC. Such institutions should have costs that do not depend on the employer's funds. In turn, employers are to participate in the financing of guaranteeing institutions [5].

In addition, in Ukraine the work on adapting the legislation to the EU standards under the Program regulating the protection of workers engaged in the mining industry is conducted in the preparatory phase with the violation of the terms stipulated by the Association Agreement. It is necessary to adopt two decrees by the Ministry of Social Policy of Ukraine, which regulate minimum requirements on work safety and health protection of workers at mining enterprises.

The issue of minimum requirements on health and safety in the EU is governed by the provisions of framework Council Directive № 89 / 391 / EEC and Council Directive № 89 / 654 / EEC [2].

Overall, the EU policy in the field of health and safety and workers' rights is based on the following principles:

1. Ensuring that goods produced within this sector shall comply with safety and health standards.
2. Protection of workers by guaranteeing an appropriate level of safety.

The main objective of labor protection policy is the reduction to zero or minimization of indicators of occupational diseases and accidents at work, as well as providing favorable moral and psychological conditions.

Today in Ukraine there is no specialized legal act, which regulates safety and health protection in working areas.

Directive № 94 / 33 / EEC regulates the safety of young workers. The national legislation does not include provisions on regulating

standards of daily rest for young workers; rules on minors who combine work and studies; matches of an annual leave with school holidays and daily standards of breaks for young workers. In general, the compliance of Ukraine's legislation with EU requirements in the field of youth work and minors care can be assessed as mediocre and the one that requires revision.

Overall, in the field of labor in Ukraine there are the following problems: a low level of labor and technological discipline, a large number of regulations being outdated, a lack of active safety management at enterprises, irresponsible attitudes of employers to labor safety, etc.

One of the possible causes of these problems is the fact that today the ratification process of mandatory for EU member states conventions that regulate the most important issues of employment is not complete, in some international legal acts there is no Ukrainian translation provided by Stage I of the Program of the Ukrainian legislation adaptation to the EU legislation, which also hampers the process of Ukraine's adaptation in the field of social security.

It is worth noting that the introduction of the process *acquis communautaire* in Ukraine has a mandatory character, because without this procedure, the country cannot apply for the membership in the EU. The harmonization of the domestic legislation with *acquis communautaire* should be considered as fulfilling relevant international obligations, as well as a consistent and integral part of the fundamental law reform that is in the process of global economic and political transformation of the Ukrainian society and the development of our country at all levels.

An important aspect is the fact that consultations with interested individuals of the society are an integral part of the European integration, that is why currently the introduction of the process of Ukraine's integration into the EU and comprehensive and broad involvement of business and trade unions, social groups, non-governmental and public organizations in the process of implementing the strategy of the European integration is a logical step. In addition, the process of legislation harmonization should take place with involving the cooperation of representatives of the International Labor Organization.

The participation of Ukraine in Conventions of the Council of Europe, which set common EU safety standards, is considered to be an important step in reforming Ukraine's legislation. This is primarily due

to the fact that the improvement of safety and security technology in EU member states is caused by the introduction of a number of laws and regulations in recent years.

As you know, member states have limited their sovereignty and delegated part of their authority to the community, which within the defined authority issue legislative acts binding for member states. Therefore, the updating of national health and safety systems taking into account the European legislation relates primarily to new participants, the legal system of which should reflect the common European position in the field of labor protection.

The adoption of the new Code of Ukraine on Labor (322-08 of 07.01.2017), which was registered in the Verkhovna Rada of Ukraine (Supreme Council) in 2014, plays the main role in the adaptation of Ukraine's labor legislation to European Union requirements. First of all, it must comply with international rights and principles in the employment field recognized by the community, including conventions and recommendations of the International Labor Organization. During its preparation European standards in the field of social security were taken into account. The Labor Code is seen as a strategic document and accumulates the prospects of the development of the Labor Law as such. The format of the new Code provides, above all, the principle of law supremacy and human rights precedence over business economic interests, not vice versa. In turn, the state should create such economic conditions that employers were interested in employing qualified workforce, guaranteeing a high level of safety, technological development and social guarantees for workers.

The functioning of the system of state social insurance shows that this system needs further improvement. The process of reforming the social insurance system in Ukraine continues, another important task is approaching the minimum size of insurance payments to the subsistence level.

An important part of the social security system is state social assistance. *Social assistance* is one of the main forms of public support of people whose financial situation does not conform to the generally accepted level of security or is lower than security limits specified by the law. The legislation of Ukraine provides that social support can be public, charitable, humanitarian, cash or in kind. In addition, the Law of Ukraine "On Social Services" provides the essential organizational and legal fundamentals for provision of social services to persons who are in difficult situations and need help.

According to the Law of Ukraine “On Social Services” the following **social services** can be provided [6, art.2]:

- welfare;
- psychological;
- socio-educational;
- socio-medical;
- legal;
- employment services;
- information.

The main forms of social services to needy groups of population include material aid and social services. Financial assistance is provided to the needy in the form of cash payments or in-kind assistance (food, clothing, sanitation, care for children, rehabilitation equipment and other essential items, etc.).

The human right to **health and medical care** is one of the basic ones in the system of social rights. Standards in health care define what and how to diagnose and treat or how to organize preventive examination, etc. The main purpose of developing standards in the health care area is: health care and strengthening; human rights protection (as the patient); improving the quality of society by the consolidation of health care bodies; development of laws in the health care area.

International standards in the health care area are multidimensional in nature and are regulated together with the regulation of relations in the field of environmental protection, the control of sanitary-epidemiological situation, the quality of products, and other factors that influence the physiological and psychological quality of life. Most human rights standards in the field of health, enshrined in international legal acts, are considered by the international community as generally recognized principles and standards of the international law that are binding for all countries. They are general in nature and nobody can deviate from them. Their importance lies in the fact that all specific standards on human rights were developed based on these principles, which are also a criterion of their legitimacy.

This statement is extremely important for quite a new category of vulnerable population in Ukraine – people with gluten intolerance, which includes two main groups: those with a genetic disorder of celiac disease and people allergic to gluten. Today, despite ongoing efforts to improve the legislation of Ukraine in terms of social security, the direct provision of social services to such categories of people is not effective enough and needs improvement. As you know, today the only way to

treat this population is lifelong gluten-free diet adherence with complete exclusion of products that contain traces of gluten. The celiac disease is a social problem that needs to be solved at the state level. The state law provides citizens with the right to work, education, housing, rest, safe environment, health care, adequate standards of living, safe working conditions and so on. It is difficult for people with gluten intolerance to get some of these social services as they encounter the following problems:

1. No special signs (markings) on food of gluten product presence;
2. Difficulty staying hospitalized in hospitals due to a lack of special food;
3. Unavailability of pre-schools for children with gluten intolerance, because the vast majority of them do not have an organized system of diet. That is why, children with gluten intolerance face some difficulties in realizing their legitimate rights to pre-school and secondary education enshrined in Article 53 of the Constitution of Ukraine.

Most of these problems can be completely eliminated or significantly minimized by adapting the national legislation to the standards of WHO (CODEX STAN 118-1979, Joint Expert Committee of FAO / WHO of 2008), which clearly explains the principles of special labeling of food containing gluten. The standards were used in making EU Directive EC № 41-2009 of 20.01.2009 on the composition and labeling of foodstuffs suitable for consumption by people who cannot tolerate gluten, and apply to EEA countries [7]. These dietary standards are binding for the EU, the USA, Canada, Australia, Argentina and others. Ukraine has made efforts to adapt the legislation on food gluten additives to WHO and European standards, but these efforts have failed so far. Amendments to the Law of Ukraine “On Basic Principles and Requirements for Safety and Quality of Food” are expected to be made, which offer to introduce the notion of food with no or reduced content of gluten (using the classification of Standard), in addition, it is offered to introduce criminal liability for unreliable marking of products containing gluten, which inflicted damage to human health.

Today Ukraine has the following state guarantees and the right to health and medical care in accordance with European standards:

- creation of an extensive network of health care;
- providing all citizens with a guaranteed level of health care in the amount established by the Cabinet of Ministers of Ukraine;
- providing public and partly public oversight of health;
- organization of the state system of collection, processing and

analysis of social, ecological and special medical statistical information;  
– responsibility for violation of rights and legal interests of citizens' health.

The essential guarantee of the right to health and medical care is health insurance; however, Ukraine still has not resolved the correspondent law. The legislation has not consolidated basic social standards (guaranteed amount of medical care) either.

Thus, in the area of compulsory social insurance EU member states have their own objectives: employment promotion, the upgrading of living and working conditions for the creation of their possible harmonization while maintaining the process of improvement; proper social protection; a dialogue between management and employees and human resource development for the sake of lasting high employment and preventing dismissals. To do this they implement measures that take into account diverse forms of national practices, including ones in the field of contractual relations and the need to support the EU economy competitiveness. Not only the internal market contributing to the harmonization of social systems will influence this development, but also the procedures provided in the Treaties and the approximation of provisions secured by the law, regulative and administrative regulations will.

An important condition for achieving social stability in society is to reform the social security system, whose main objective is to expand the social base of reforms based on the stabilization of living standards, reducing the burden of economic reforms for the most vulnerable population, taking measures on social adaptation of the population to these changes.

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**LOGISTIC ASPECTS OF  
BUSINESS STRATEGY  
REALIZATION OF  
INTERNATIONAL TRADE  
PARTICIPANTS**

The development of public production and international trade complicates the global economic environment and stipulates the need for the formation of efficient logistic systems influenced by the following factors: economic growth, global markets development, regionalization, global competition, technology expansion, transportation deregulation and logistic infrastructure development.

The globalization trend reflects world integration processes, manifested in the creation and development of global regional, national and international trade, transport, distribution, telecommunication systems against the backdrop of the elimination of trade and customs barriers for economic resources movement. The desires of many companies for economic growth in the conditions of increased competition in domestic markets determine their orientation to foreign markets; stimulate the search for more profitable sources of raw materials and the use of human resources from abroad. Deregulation procedures held by many countries to relieve trade, customs, transportation and financial barriers to develop international trade, economic and socio-political relationships are essential for global logistics. These procedures facilitate the flow of capital, goods, information and labor recourses across national boundaries.

The liberalization of foreign trade activity in Ukraine, reduction of tariff and non-tariff barriers, simplification of customs, import-export



procedures result in the simplification of economic barriers, emergence of new areas of economic freedom development and initiative of businesses. The emergence of a large number of commercial and trade, transport, forwarding, storage, information and other market intermediaries complicated the relationships between producers, intermediaries and consumers of goods and services in domestic and foreign markets. This updates the formation of a clear vision of enterprise objectives at relevant segments of the foreign market, the goals, objectives and possible ways of their implementation through the development of appropriate strategies of foreign economic activity by the owners and managers of companies-participants. An integrated enterprise business strategy will ensure a balance between the objectives of an international trade enterprise, his potential and opportunities in the foreign environment.

An enterprise business strategy should be seen as a generalized model of actions needed to achieve this goal through the coordination and resource allocation of enterprise business activity. The purpose of a business strategy is to achieve long-term competitive advantages that would ensure the company's high profitability. Therefore, the following main elements of the strategy are defined, a set of which allows forming a clear picture of how the company uses and concentrates its resources:

- corporate mission (the concept of a corporate mission reflects existing in the market possibility to meet a specific type of needs, supplying a certain type of products for a particular category of consumers in the competitive environment defined by a group of suppliers-rivals);
- competitive advantages (the strategy target is to reach that level of meeting needs, where dominates the one that can be reached by a competitor, and thereby creating such a situation for the company, which will provide it with a rate of profit higher than an average level);
- business organization (business organization is carried out under commodity kinds, customer or market differentiation);
- the choice of markets (market borders are defined not only geographically, but also by the features of product use; in the business strategy development the attention should be focused on those buyers, in which it is most interested);
- investment and operating costs (investment typically is used for the financial support of the strategy, so company orientations can be defined by investment directions; targeting an entire cost complex is a crucial element of the strategy);

- development programs (production development, expanding markets, increasing business activity, etc, are usually part of an overall investment program of the company, a result of the strategic policy, dictated by technology development or market needs);

- culture and management competence (enterprise culture covers attitudes to entrepreneurial risks, perception of entrepreneurial spirit, doing business at a high level, independence orientation, attitudes to the problems of product quality and meeting customers' needs, relationship with contractors, customers and employees; attitudes to work, success and failure).

When developing a business strategy of a FEA enterprise-participant the following aspects should be taken into account:

- forming relatively open economic, including logistic systems;
- economic forecasting using knowledge of evolutionary laws;
- improvement of the methods of state regulation of foreign economic activity;

- reduction of tariff and non-tariff restrictions;

- optimization of the level of tax payments;

- simplification of customs, import-export procedures with simultaneous computerization;

- creating “transparent” clear legislation on enterprise foreign economic activity.

In a globalized economy the activity of economic entities in different countries that form new, more efficient systems of supply and distribution of consumer goods, which are the subject of logistics in foreign economic activity significantly increases. The specificity of the development of an enterprise FEA strategy assumes the need for optimization of the movement of commodity, financial and information flows associated with the formation of a separate functional logistic strategy of a FEA enterprise-participant.

The experience of creating global trade, transport and telecommunication networks, the purpose of most of which is to improve the service quality while managing commodity promotion, to improve the environment, to reduce logistic costs due to the removal of customs, tariff, tax and other barriers, to rationalize freight traffic, to create a network of distribution logistic centers, to form trade, transport and telecommunication infrastructure is important for the economic development of Ukraine. This, in turn, requires new forms of management, marketing, and the relations of coordination and integration of business partners. The establishment of rational

relationships between mediators, the development of methods for evaluating the effectiveness of such links, the minimization of the number of transactional operations and related logistic costs, which can be successfully implemented in global logistic systems at various levels, are urgent tasks in this regard. Thus, the introduction of modern concepts and systems of global logistics is one of the strategic ways to improve the competitiveness of domestic business entities.

Some FEA participants while interacting establish economic ties, thus forming a logistic chain. A logistics chain traditionally is a linearly ordered set of individuals or legal entities (suppliers, agents, carriers, etc.), directly involved in delivering a specific consignment of products to the consumer [4, p. 122]. In its simplest form a logistics chain consists of a provider and an inventory recipient, but it often includes transport and insurance companies, resellers, financial and credit institutions, etc.

Exporters and importers, transportation companies, customs authorities and various customs brokers usually are major links of logistic chains in the international trade. It should be noted that the end users of import and intended for export goods are individuals or their families) who, although are not considered logistic chain links in the foreign trade, indirectly influence movement directions, volumes and the assortment of foreign economic trade flows.

As the practical experience has shown, operations on the organization and implementation of trade flows in the world market are more expensive and complicated than similar operations performed in the national market in domestic trade. According to the expert estimates, the cost of material flow displacement in the international exchange sphere is 25-35% of the sales value of export-import products, while similar costs in the domestic market do not exceed 8-10% of the value of goods for shipment [1, p. 20]. Considering the fact that the widespread use of logistic methods can reduce the movement of products by 25-30% and reduce the product stock owned by consumers by 30-50% [2, p. 5], it can be expected that the use of logistics in the international trade will significantly improve foreign trade efficiency.

In the sales field manufacturers and retailers can use different versions of logistic channels, characterized by different quantitative composition and qualitative structure of distribution subjects. Export-import transactions with inventory items, performed in international distribution channels and product procurement play a principal part in FEA. In particular, international product distribution channels are seen

as ways of national products movement from producers to foreign consumers both directly and indirectly. The participants in international distribution channels include: a national producer, a national retailer, a national wholesaler, an exporter, an importer, a wholesaler or a foreign agent, a foreign retailer and a foreign consumer. International channels of the procurement of material resources (goods) have a similar complex structure.

In terms of complex logistic processes and procedures for processing cargos, export and import transactions carried out on the basis of direct links between the seller and buyer of the goods are less labor-intensive and more effective. They apply to export-import operations on the supply of raw materials, semi-finished products, equipment, components and other products for industrial purposes. Such transactions involve the supply of goods of predetermined quantities and quality characteristics, taking into account buyers' specific requirements; they are fulfilled on the basis of previously received orders and are characterized by the duration and stability of relations between suppliers and consumers.

Indirect channels of commodity promotion in foreign trade can be realized by a wide variety of schemes (exporter – customs broker – customs body – temporary storage warehouse – importer; importer – customs body – temporary storage warehouse – customs carrier – exporter; exporter – customs body – temporary storage warehouse – customs warehouse – importer; importer – customs broker – customs carrier – customs body – temporary storage warehouse – exporter; importer – customs carrier – customs body – temporary storage warehouse – customs warehouse – exporter, etc.); it should be born in mind that both direct sellers and buyers of goods and foreign trade intermediaries acting on their own behalf or on behalf of exporters and importers can act as exporters and importers of goods.

The specificity of the product that is sold or purchased in foreign markets, determines the configuration of distribution channels (procurements). The factors influencing the choice of distribution channels are as follows: the possibility to be engaged in goods distribution and be subjected to the risk of sales and distribution; the availability of knowledge, experience and methods of trade; goods sales volumes; the geographical remoteness of the areas of goods production and consumption; the efficiency of intermediaries' service; consumer goods properties; situation on markets; the comparative effectiveness of distribution channels.

The choice of the optimal form of goods distribution must be based on the analysis of the efficiency of each of possible channels. The most common criteria for selecting channels that are used during the justification of a distribution strategy include: costs (payment of intermediaries' current activities); enterprise control by mediator's activities and thus its monitoring due to the market state; market coverage (the ability to bring production to a certain number of consumers). In the international practice a set of criteria is considered as the conception of "3C" sales. A more thorough approach to the choice of a distribution channel was named "6C" when necessary investment; nature of the channel, its compliance with goods requirements, the seller and the market; stability, agent's targeting for long-term relationships are added to the elements of "3C" to create a channel.

For the successful work of a distribution channel it is necessary not only to decide on its type and configuration, but also to choose proper channel participants. The complexity of global logistic systems, the need for flexible response to the customers' dynamic demands, striving to provide logistic services at the highest level actualize enterprise management integration with numerous logistic intermediaries – "third parties". 3PL-approach allows us to better monitor the market and consumer demands; reduce operational logistic costs; increase productivity and efficiency; improve enterprise flexibility and adaptation to the changes of the logistic environment; expand the ability to develop related sales markets; increase an access to world-class production, facilities and leading technology; accelerate the ability to quickly realize benefits; reduce risks; reduce the duration of operating and logistic cycles, etc.

One of the primary objectives of the organization of 3PL-interaction in global logistic system is the choice of logistic intermediaries in certain geographic areas. So-called international channel mediators, which include: international freight forwarders, transport companies, companies on export transactions management, foreign companies and representative offices, brokerage and agency firms, companies on packaging products in export-import transactions, ports and others play an important role.

One of the most difficult issues for each participant of international trade is the task of organizing effective systems of goods delivery under export or import contracts between a Ukrainian enterprise and its foreign partners. The necessary condition for creating efficient systems of the foreign trade flow movement is legal regulation of the processes of trade

cargo displacement under the terms of trade agreements. In the international trade practice the international rules of interpreting trade terms that determine basic conditions of a foreign contract and obligations of the buyer and seller during its execution are widely used and are developed by the International Chamber of Commerce for their harmonization and common understanding by contractors during contract conclusion and implementation by FEA participants from different countries (“Incoterms 2010”). One of the factors in the development of a new edition of the rules was the further development of goods transportation in international trade with using containers and new ways of organizing delivery – intermodal and combined transportation.

Among the terms developed by the International Chamber of Commerce it is necessary to define supply bases that allow full use of the principles of logistics in goods delivery from the seller to the buyer. They include terms like: FSA, CPT, CIP, EXW, DAP, DDP, creating a situation where one party almost entirely concentrates in his hands the issue of transport management, i.e. the management and control of goods delivery.

As the authors [3] point out, the implementation of delivery terms of DAT deserves special attention, when the seller transfers the goods to the buyer unloaded at the named terminal, while under DAP terms the delivery is carried out when the seller transfers the goods to the buyer in the named place on a vehicle ready for discharge (i.e. unloaded). Contract terms DAT and DAP can be used irrespective of the mode of transport, they are not limited by sea and thus are particularly attractive for use in container transportation.

The logistic approach to the selection of a basic term of contract supply and sales must take into account a wide range of determinants, including the possibility of the parties under contract to use a more modern and cheaper scheme of goods delivery taking into account the location of the seller and the recipient. As a result, all parties receive certain benefits in terms of reducing the cost of contract implementation as a whole. However, basic terms of the contract define only the main obligations of the seller and the buyer and do not exhaust all the details related to the organization of goods delivery, the cost of which is one of the factors that influence the trade agreement efficiency. Therefore, the contract should provide in advance the distribution of transport costs between the seller and the buyer through negotiating transportation terms of contracts.

Contract transportation terms are a special section of agreements, which specifies in detail the duties, responsibilities and expenditures of the parties on goods delivery organization. During the contract preparation the preliminary study of transport capacity of the contract is held, which may include a range of issues like: the availability of direct communication between the country of export and buyer's market; rates and tariffs of the maritime traffic international market; rail, road and air fares; the mechanization level of loading and discharging works in proposed points of cargo processing, the cost of these works; the cost of goods storage in the places of transfer, the points of dispatch and destination; rules and special terms of transportation in the country of destination and departure, rules for delivery and acceptance of goods; international treaties and conventions governing different transportation modes. The resulting information allows: to choose a delivery basis and calculate the sales / purchase price of the goods during their implementation including delivery or not; based on the calculation of travel costs to choose the direction in which to ship cargo in the most profitable way; to form right traffic conditions in contracts, taking into account all possible costs.

The specific content of agreement transport terms depends on the factors such as: basic terms of supply, mode of transport, delivery method, product transport specificity, terms of international contracts and agreements regulating traffic conditions. The issues related to delivery, which require special processing of the contract include:

- 1) the term of goods shipment from the point of dispatch or goods delivery to the destination point;
- 2) the name of the point of dispatch and the name of the destination point;
- 3) the procedure of goods delivery by the seller to the carrier and its acceptance by the buyer off the vehicle;
- 4) mutual information system between the seller and buyer of goods readiness for cargo operations and the timing of vehicle arrival during cargo operations;
- 5) distribution of delivery costs between the seller and buyer;
- 6) the negotiation of a contract type, under which international traffic should be documented;
- 7) rules of goods loading and dispatching and the time for cargo operations stipulated by the contract;
- 8) the procedure of cargo arrangement on the vehicle;
- 9) transport packaging and marking;

10) other conditions associated with transport specific features of goods or the method and route of transportation;

11) the insurance of the goods during delivery and so on.

Thus, the successful implementation of a business strategy of international trade participants requires careful formation of their goals and objectives in the field of logistic activities and selection of effective tools to support them.

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### **ORGANIZATIONAL AND LEGAL MAINTENANCE OF TERRITORIAL COMMUNITIES' FUNCTIONING IN UKRAINE**

The major tasks of the Concept of Local Self-Government and Authorities' Territorial Organization Reform in Ukraine are defined as following [1]: maintenance of accessibility and quality of public services provided to the residents; achievement of efficient division of responsibilities between local self-government bodies and executive authorities; establishment of three-level administrative and territorial structure: community – region – oblast; creation of self-sufficient territorial communities as the basic link of administrative and territorial structure through promotion of cooperation development and voluntary combining of territorial communities; creation of proper material,



financial and organizational conditions for the development of local self-government.

According to M. Weber, the nature of policy, the problem of reform and aspirations to influence the division of authorities are defined by the objective to obtain the rent (rent-seeking). However, the endeavors are related to transaction costs [2]. The problem of «authorities division» is not limited by lobbying costs, rent-seeking and business income; it is also related to establishment of inefficient property rights and therefore – inefficient trajectories of society's economic development. The reasons of economically inefficient authorities' conduct were analyzed by D. North [3]. The leaders are interested in tax collection and can authorize such a structure of property rights, «which although is not efficient, but is controlled more easily and creates more opportunities for tax collection». The situation, when raw materials branches dominate thus hampering the development of small and medium business and the revitalizing of fixed funds of a range of branches, can serve as an example.

In the framework of institutional concept D. North [3] mentions that even if the leaders want to adopt the laws from the viewpoint of efficiency, the instincts of self-preservation will dictate them another way of actions, because efficient regulations can constrain the interests of powerful political associations and lead to destabilization.

The interconnections of specific resources create the networks within the state and become the source of quasi-rent emergence. R. Kapelyushnikov [4] emphasizes that economic agents interested in their assignment try to influence the decisions made by the state and try to guide its legislative and regulative activity into advantageous direction for them. Significant amounts of funds and endeavors are spent by them on protection of already received rents and quasi-rents and creation of new sources, as well as their redistribution for their own benefit [5]. P.J. Proudhon mentions that legislation inflicts damage on society, because the laws are produced to protect various interests, which are numerous and endless, changing and flexible; no wonder that legislation constantly increases – decrees, regulations, laws, edicts, resolution, often contradictory and incompatible, rain down upon poor population [6].

The overall content of the abovementioned comes down to the following: «political vertical» becomes the hypertrophy of «economic vertical». And this weakens economy that needs development of «economic horizontal», because competitive environment is possible only at the level of «economic horizontal».

The following are the suggested approaches to the research of territorial community in organizational and legal fields: territorial community as the primary entity of local self-government; territorial community as administrative and territorial unit; territorial community as cooperation entity; territorial community as entity and object of state regional policy; territorial community as the participant of public association.

Territorial community as primary entity of local governance:

- local governance means the right and ability of local governing bodies to conduct within the law the regulation and management of considerable share of public affairs under their own responsibilities and in the interests of local population (Article 3) [7];

- local governance is the right of territorial community – residents of a village or voluntary combined residents of several villages, town or city into a community – to independently manage the issues of local importance within the Constitution and Laws of Ukraine (Article 140) [8].

- territorial community is the primary entity of local self-government and main transmitter of its functions and liabilities (Article 6) [8];

Territorial community as administrative and territorial unit. Ukraine's territorial structure is based on unity and integrity of state territory, combination of centralization and decentralization in conducting of state authority and balance and socio-economic development of regions taking into account their historical, economic, ecologic, geographic and demographic peculiarities as well as ethnical and cultural traditions (Article 132) [9]. The system of administrative and territorial structure of Ukraine consists of: Autonomous Republic of Crimea, oblasts, regions, cities, areas in the cities, towns and villages (Article 133).

Modern administrative and territorial structure of Ukraine has three levels: subnational (regional) level, subregional level, low level. Administrative and territorial structure is characterized by conservative approach. It is established mainly during certain period and changes really slowly. However, the change of objective conditions that have the decisive influence on internal and external position of the country leads to the necessity to reform the structure for the sake of efficient organization of residents' life.

In fact, with regard to territorial organization of society and economy we have remained to be the fragment of the huge empire without our

own efficient system of territorial and social development management. In modern dynamic and overglobalized political and economic space in times of drastic crisis situation the state body will simply be unable to react to external challenges and internal response and will remain to be the chaotic group of uncontrolled regions.

In 1990 Poland established a gmina as an independent basic unit of territorial structure. All gminas preserved their names, territories and administrative centers.

At the beginning of «Agenda — 2000» implementation all the EU regions were brought into compliance with the system of Nomenclature of territorial units for statistics (NUTS), which started back in 1988. This model contributed to construction of clear hierarchy of communities. However, the communities in the EU member states have been formed mostly historically. Due to this, NUTS-1 administrative units (Nomenclature of territorial units for statistics), where the number of population is more than 5 million, do not exist in each EU country. Local communities with population number from 800 thous. residents to 2 million constitute the relevant NUTS-II level. The lower links of traditional division are the NUTS-III level, with population less than 800 thous. persons. Although some countries (Great Britain) have preserved even smaller units (NUTS-IV; NUTS-V), allocation of finances from structural funds according to objective 1 was directed only at level NUTS-II, and by the objective 2 – at the level NUTS-III. Any country, which was going to enter the EU, had to conduct the regional reform with distinct identification of the NUTS levels.

After the 1999 administrative reform in Poland 16 voivodships became the biggest territorial units. Both self-government authorities and state administrations act at this level. Administrative map of the voivodships was constructed taking into account the concrete conditions of different Polish regions. Two voivodships with the smallest number of residents (up to 1 mln. persons) have 11 poviats, and the largest one (over 5 mln. persons) has 38 poviats [10].

New administrative and territorial structure has to become the basis for construction of the new territorial management model, characterized by decentralization, subsidiarity, balance of state interests and interests of regions' and territorial communities' population, omnipresence of local governance and ability and independence of territorial communities in terms of solution of local importance issues.

Dozens of programs, declarations and concepts still keep unsettled the matter of state territory's complex and proportional organization

efficiency. Misunderstanding of the real context of administrative and territorial structure or unwillingness to understand it leads to imitations – declarative change without radical reorganization and construction of clear system.

Most often the issue is solved through rotation of authorities' representatives, increase-decrease of responsibilities of state authorities' levels and different state management legal conflicts. Appeals for state regionalization and drastic transformation of territorial organization system that have only political context without attraction of serious scientific research are another extreme aspect.

In order to develop efficient structure it is important to decide what major idea should be transferred by future transitions.

The real content of administrative and territorial reform is creation of efficient system of living activity's territorial organization management as the integral social complex [11].

The future scheme interpreted by V. Koshelyuk stipulates availability of four management levels: nationwide; regional, consisting of macrolevel represented by lands and mesolevel represented by oblasts; local, represented by rural and urban administrative regions; topological, represented by territorial communities [11].

The problem of improvement of topological level of residents' living activity management is one of the most urgent nowadays. This level is directly responsible for conditions and level of population life, for directions and efficiency of human activity on the basis of local resources exploitation and for environmental condition and protection. It also maintains concrete implementation of all management regulations. The main objective of territorial communities' functioning is to bring various services closer to the needs of population.

Territorial community as the cooperation entity. According to the Article 5 of the Law of Ukraine «On Cross-Border Cooperation» territorial communities can conduct cross-border cooperation:

- within the existing Euroregion;
- through concluding agreements on cross-border cooperation in certain spheres;
- through establishment and development of mutually advantageous contacts between them;
- by choosing the forms of cross-border cooperation according to Ukrainian legislation.

Cross-border cooperation within the Euroregions. There are 10 Euroregions at Ukraine's border with neighbouring states. Majority of

them functions as structural units of State Oblast Administrations. Unlike the Euroregions with Ukrainian participation, the Euroregions in the EU are mainly formed and function at the level of territorial communities.

All Euroregions at the EU border with Ukrainian participation are created by oblast authorities, and the communities at the Euroregion's territory in fact remain away from its activity. Only Carpathian Euroregion has established its work at the similar level to the EU countries due to functioning of the Association of Local Self-Government Bodies «Carpathian Euroregion - Ukraine» since 2007. 63 organizations are the members of this Association.

Cross-border cooperation through concluding agreements. Cross-border cooperation agreement regulates legal, organizational, economic and other aspects of this cooperation.

The agreement can stipulate creation of cross-border cooperation bodies. Cross-border cooperation body performs duties assigned to it by territorial communities, their representative authorities and local self-government authorities according to liabilities and the procedure stipulated by Ukraine's legislation. Ukraine's Verkhovna Rada ratified the Protocol № 3 to European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities concerning Euroregional Cooperation Groupings (ECG) as the form of cross-border cooperation body in 2012.

The information on implementation of agreements and their results is provided by the cross-border cooperation entities to the central executive authorities of Ukraine. There is no information on cross-border cooperation agreements available to the public.

However, Ukraine has developed the procedure of forming and maintenance of functioning of the territorial communities' cooperation register in order to keep the record and monitor the cooperation agreements and transparency and availability of information on the concluded agreements. Access to registered information is free of charge and is available at the Official Web Page of the Ministry that maintains forming of the state policy in the sphere of local self-government development.

State cross-border cooperation program is one of the instruments of state cross-border cooperation development policy. State cross-border cooperation program is the complex of Ukraine's state authorities' activities directed at cross-border cooperation development conducted through the use of Ukraine's State Budget finds [12]. State cross-border

cooperation programs are developed by Ukraine's cross-border entities and approved by central executive authorities engaged in forming of state regional policy, state policy in the sphere of economic development and state financial policy and by the Ministry of Foreign Affairs and central executive authorities that govern the issues of cross-border cooperation. Afterwards they are submitted to the Cabinet of Ministers of Ukraine according to the procedure established by legislation.

2016-2020 State Cross-Border Cooperation Development Program [12] stipulates the following regarding the strengthening of territorial communities' institutional capability: promotion of economic, social, scientific, technical, ecological, cultural and other types of relations between territorial communities, their representative authorities, local executive authorities, territorial communities and relevant authorities of other states; maintenance of inter-municipal cooperation and relations between small and medium towns in the bordering regions of Ukraine and other cross-border cooperation entities through accomplishment of the following tasks:

- to improve joint strategic planning, to define priorities and activities in order to develop mutually advantageous cross-border cooperation, to expand regulative and legal basis of cooperation between territorial communities of border regions of Ukraine and other countries;

- to conduct joint activities (conferences, meetings) directed at activation of cooperation within the existing Euroregions and inter-governmental commissions on cross-border cooperation.

Regarding the strengthening of territorial community's institutional capacity, first of all it is worth mentioning that territorial communities in Ukraine do not enjoy legal personality, therefore they can't be the full-scale entities of market, social, economic, administrative and political relations. This contributes to the risks of their institutional inability.

In Ukraine territorial communities are not registered as the parties to legal relationship and do not possess the relevant documents that prove their legal personality (in particular, registration certificates, territorial communities' identification codes). Under these circumstances territorial community is not the party to agreements on cross-border cooperation. Instead, local councils preserved the status of legal entities and all rights and liabilities. They are actual owners of communal assets and possess all powers and authorities and this contradicts the European model of local self-government.

Foreign experience proves that local councils or executive committees do not have legal personality; they are only the self-governing bodies, which do not acquire legal personality [13]. In the meantime, territorial communities are legal entities and possess all the necessary liabilities and rights of basic local self-government entities. This contributes to proper assignment of property rights.

Territorial community as the participant of civil relations. The major provisions of the Civil Code are the following:

- territorial communities can create legal entities under the public law (public utilities enterprises, joint public utilities enterprises, educational establishments, etc) in cases and under the procedure established by the Constitution of Ukraine and the legislation (Article 169);

- territorial communities can create legal entities under the private law (business partnerships, etc) and take part in their activity on general basis, unless otherwise provided by law (Article 169);

- territorial communities acquire and execute civil rights and liabilities through local self-government bodies within their competence established by law (Article 172);

- territorial communities are liable to the full extent of their assets, except for assets that can not be seized or sold according to the law (Article 173).

- territorial community owns the communal property, including monetary assets. Territorial community and local self-government bodies established by them directly manage the assets (Article 327);

- territorial community can be a common property right entity (Article 356). Ownership by two or more persons with defining of each share in property rights is the joint share ownership;

- territorial community can be a joint property right entity. Joint ownership by two or more persons without defining of each share in property rights is joint property ownership (Article 368);

- territorial communities are the land property right entities (Article 374);

Territorial community as public association. Major provisions of the Law of Ukraine «On Public Associations»:

- public association is the voluntary association of individuals and/or legal entities subject to private law with an aim of rights and freedoms protection and meeting of social interests, in particular economic, cultural, ecological, etc (Article 1);

- public union is a public association founded by public law entities, however private law entities and individuals can be the members (participants) thereof (Article 1);
- public association can conduct activity with legal personality status or without thereof. Public association with legal personality is a non-profit association and can not be oriented at attainment of profits (Article 1).

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## CONCLUSION

Transformation of international economic relations envisages the creation of new and development of existing institutions, free economic zones, migration of human capital, investment features that contribute to solving not only economic but also social issues through activating investment and foreign economic activities of enterprises and creating new jobs. This gives grounds for the formation of world economic models in which the creation of jobs in such economic zones depends on the operation of international institutions.

Institutional economic models, their formation and development occupy a special place in understanding the content of the dynamics of modern international economic relations. When studying institutional models for the development of international economic relations, it is necessary to take into account the features of development and the conditions of activity of groups of countries between which economic ties are formed. These are countries with developed market economies, transition economies, new industrial countries, developing countries.

Other significant factors influence the formation of a certain institutional model for the development of international economic relations: the existing nature of the structure of the national economic system, the degree of integration of the national economy into the world economic space, the historical, political and legal traditions of the development of international economic cooperation of each particular country for two and many extraneous levels.

The transition to a new stage of world civilizational development towards a postindustrial, information society based on the knowledge economy, human and social capital, in the era of total globalization determines the formation of a new institutional paradigm for the development of international economic relations.

Transformation of the institutional model of international economic relations should be carried out at three institutional levels: in the norms of the national economic system; in the rules on which entrepreneurs are operating partners of national economies; in institutions that are established by official international institutions, international associations and associations.

The institutional model of international economic relations should include the basic elements arising from the new institutional economic theory and take into account the realities of modern international relations of economic interaction at different levels (economic theory,

contract theory, transaction costs, political climate, psychological prerequisites, etc.). Institutional models can encompass both the world community and regional or bilateral levels.

Rules and norms of international economic cooperation are laid between countries for decades by various subjects of economic interaction; significantly affect the development of institutional models of bilateral economic relations.

In the institutional context (legal mechanisms, contractual agreements, bilateral agreements, etc.), the practice of bilateral international economic models can differ substantially between countries and regions of the world economic space, as it is the result of prevailing subjective factors of economic interaction or reflection of the theory of social capital in international economic relations.

Prospects for the development of modern models of international economic relations envisage a deepening of the methodology for analyzing the formation of a new institutional paradigm of economic theory as the basis for practical actions in reforming international economic interaction.

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