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UKRAINE IN THE 21ST CENTURY. STRATEGY OF REFORMS AND SOCIAL CONSOLIDATION

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FOREWORD

1. World Crisis: Lessons and Conclusions

The world is going through one of the deepest and large-scale crises it has ever seen, properly called the Great Recession. In contrast to the previous crises -the energy and financial crisis of the 1970s-1980s, the Asian financial crisis of 1997, national defaults of the 1990s, and the stock market crash of 2001, the current recession has all the signs of being a global systemic crisis. It is a crisis that shows that the previous model of global development has exhausted itself and **the world needs profound changes in its financial, economical and geopolitical architecture.**

The underlying causes of the crisis are to be found in the civilizational rather than economic area. The individualistic culture of rapacious attitude to nature and man has exhausted itself after destroying unique cultures and degrading human values and spiritual heritage, which resulted in wide-ranging standardization and commercialization of all the endeavors of human life.

A path to a new globalized civilization may turn out to be much more strenuous than the romantically-minded adherents to the ideas of globalization could imagine in the twentieth century. The world economy was the first to blow the whistle on things going awry – it signaled that changes were needed and that views on the future development required a turnabout rethinking.

One of the key causes of the present-day global economic crisis was the model of economic development based on extensive consumption that had exhausted its potential. This ailing model had encouraged a continuous and expanding increase in mass production and speeded up the growth of the financial sector and services.

With the rapid globalization of the turn of the century, the model of extensive consumption spread around the world as a universal algorithm for successful economies. It resulted in the creation of a system of international labor division in which the leading place was occupied by the countries with the most developed financial systems and high capacity of the internal market oriented toward satisfying consumption demand. They became exporters of high technologies, financial schemes, and models of social and economic organization, whereas the function of most countries on the global periphery was to provide goods and resources. Preservation of the uneven growth has become one of key global problems.

A slowdown in the rate of technological innovations in the developed countries at the end of the twentieth century resulted in further imbalances in the world economy. The accelerated growth of internal consumption and preservation of technological disparities caused galloping price hikes for natural resources and further struggle for control of the regions that are rich in natural resources. The problem of having sufficient resources for further economic growth (territories, natural resources, land and food) acquired global proportions.

The final stroke to the model of extensive consumption was delivered by a glitch in the functioning of the financial and bank systems of the developed countries. Creditors' failure to service enormous debts resulted in devaluation of financial instruments and caused a wave of bankruptcies of financial institutions, a total collapse of stock markets, forex frenzies and a critical drop in credit activities.

In order to prevent the final collapse of the financial systems, the governments of most countries had to interfere to alleviate the crisis. A process of reassessing approaches to securing a stable economic development began.

The role of the state as a manager and active regulator of market processes was rehabilitated, and the emphasis was put on the development of new unique models to deal with crises and seek new modernization strategies.

Suffice it to say that the G8 governments allotted trillions of dollars in the years 2008-2009 alone to save the banks and stimulate the economy.

Secondly, a search has begun for the optimum systems to control financial markets. A coming bank reform has been proclaimed in the USA and EU countries. New regulatory mechanisms are being created for financial markets. These were the subjects discussed at most of the recent international forums held by the G20 countries, regional integration associations, Davos meetings, and economic conferences of different levels.

Thirdly, innovative development has become one of the key policy initiatives. 6th and 7th generation technologies are being introduced. Creation of original innovation infrastructure is a priority as it dramatically cuts the road from fundamental research to technological implementation and industrial production of innovative solutions.

Fourthly, regional integration has intensified in parallel with sweeping integration of national economies and formation of new global clusters, bringing together industries and businesses in different countries. The role and importance of regional inter-government associations have been rising alongside the growing role of the state as a regulator of economic processes.

As the Lisbon Agreement goes into effect, the functioning principles of the European Union are also changing. Regional associations such as the Asia-Pacific Economic Cooperation, Association of Southeast Asian Nations, Shanghai Cooperation Organization, are coming into their own. Economic associations of Latin American countries (Bolivarian Initiative), and those of the Persian Gulf are being formed. The Customs Union has been agreed upon by Russia, Kazakhstan and Belarus to boost political and economic integration among the post-Soviet countries.

However, the crisis is not over yet. 2010 and the years to follow will be the time of tough tests for many countries that have found themselves in the vice of debts and now face challenges to their sovereignty.

Because of the crisis, the European Union is forced to allot billions of Euros to bailing out the hardest hit EU countries. Uncertainty is the word to describe the state of things in the global financial system. Recession continues to be a looming threat, competition for the markets of the most stable and growing economies is increasing. There is a high risk of new financial speculations, asset depreciation, and weakened economic sovereignty of the developing countries. The gap in technological and social development that exists between the developed countries and those of a lower level of competitiveness is widening. The level of tensions between the global North and South is also rising.

In view of the above, there are all the reasons to expect yet another “wave” of the crisis which can considerably slow down the rates of recuperative growth of the world economy in the next three to five years.

In this situation, the process of reconstructing the whole political and economic architecture of the world has accelerated. During the crisis, new centers of economic growth have extended their influence, such as China, India, Brazil and some other countries. It is these countries that have managed to preserve their advanced rates of development that are now becoming new world centers of gravity.

The G20 countries have taken it upon themselves to assume responsibility for listing the priorities in economic reforms and outlining the profile of further world labor division.

Discussions of the reforms for the IMF and the World Bank, the major international financial institutions, are progressing despite considerable difficulties, particularly as regards increasing the contributions of the developing countries.

The dialogue within the Doha round of WTO negotiations has stepped up.

As new leaders of the world economy emerge, structural transformation of international cooperation and security mechanisms becomes a priority.

Revamp of the United Nations Organization is becoming urgent – the status and makeup of the Security Council should be reconsidered, the role of the UN General Assembly should be raised, more importance should be given to other UN organizations, and an institute of international judges and a corresponding international court as the only supranational court should be established.

Active discussions continue around a transformation of the global security system. The institutions which were created during the Cold War are losing their efficacy. Security relations can no longer come down to such an instrument as a military bloc, they are becoming ever more complex and multifarious. Joint efforts of the allied nations and the countries that retain their non-block and neutral status require new ways and forms of cooperation. New approaches are needed to develop the European security system, including an OSCE reform, creation of a new European security architecture and of more flexible security systems at a sub-regional level.

The world-wide tendencies suggest that in the near future a new architecture of global security will incorporate elements of regional cooperation and coordinated efforts of all UN member states.

After the Strategic Arms Reduction Treaty-3 was signed by the USA and Russia, a new process of nuclear disarmament was launched. At the same time, it boosts a new spiral of technological competition as demand is growing for modern non-nuclear technologies, both of military and civil use.

Emergence of new ambitious leaders in the world economy, acceleration of integration processes, active discussions of the ways to reform institutions of international cooperation prove that a qualitatively new transformation of world economic structures is being born.

The global crisis and the global transformations have given new challenges to every country. All the nations without exceptions will have to defend their rights and ambitions to be the players and participants of a new global architecture.

The main challenge of the 21st century seems to be the desire of nations to assert themselves, uphold and develop their identities and economic viabilities despite their shrinking sovereignties and accelerated integration processes. The challenge offers a tough alternative: it will either be predictability and managed development, or absorption and disintegration.

Challenge One arises from fierce competition for the spheres of influence and from integration strategies in the multi-polar world. Resources of development, such as territory, natural resources, land and food, have become “bones of contention” among individual nations, international alliances, and powerful transnational companies.

Challenge Two results from the growing gulf between the technologically superior and socially protected North and the poor South which is lingering behind and is riddled with conflicts. Technological diversity of the world also tends to support conservatism and inertia. Modern innovation-oriented economies keep going further ahead of backward countries and regions that have outdated technologies and can only provide raw materials.

Growing social tensions, particularly in the regions which suffer from destitution and instability give rise to Challenge Three – humanitarian disasters.

Challenge Four results from the conflicts that increase in number and intensity, and by the emergence of new security threats posed by terrorism, piracy, cultural vandalism, and new ideological differences. These challenges reflect the complexity of the new world makeup. Evidently, solutions that are only based on defense and security instruments would be inadequate or even impossible. The whole system of international, economic, social and cultural relations must be overhauled.

Challenge Five comes from the increasing impact that the anthropogenic factor has on the environment. Commercialization of ecology, and the threat of a new rush to achieve economic advantages with the help of environmental and technogenic factors contribute to this challenge.

The globalized world is affected at an ever growing scale by man-made disasters such as the climate change, geological movements, and pollution. It is clear that new social mechanisms are needed to curb and control these adverse phenomena.

Responsibility of the countries, transnational businesses and international organizations for the results of their activities should not be limited to attempts to regulate the amount of noxious emissions as does the Kyoto Protocol to the UN framework convention on climate change, or reduction of threats caused by nuclear proliferation. Responsibility requires tightened control and a more active engagement of the countries in the search for solutions.

The tragic experience of the Chernobyl disaster should be a lesson and a warning to the whole world as local disasters easily transcend the national borders. Catastrophes have become global in terms of their impact on international relations, economies and security.

These and other challenges should become the subject of an open and serious dialog with participation of all the nations, without exceptions. As early as September 2010, the UN plans to hold *The Millennium Development Goals* summit that will try, for the first time, to find common solutions to the world development problems.

The dialog can be based on:

- humanistic ideals and values;
- social progress in the interests of all the nations and peoples of the world, based on progressive reduction of differences in the countries' development;
- tolerance and mutual responsibility.

The UN Summit should initiate a frank dialog between the nations united in a global civilization, a civilization that both integrates and preserves various cultures.

The alternative to such a dialogue is nothing but a struggle for survival aggravated by the pressing threat of anthropogenic disasters.

The world is changing fast, and though the outlines of the future global civilization have not been fixed yet and the major differences between the key world players have not been solved, Ukraine should spare no effort and show commitment and determination to become a participant in these processes. It is important for Ukraine to secure its role of a sovereign decision-maker rather than that of a passive observer that can only adapt to the changing situations.

2. Lessons of the Crisis. Domestic Dimension

In the past few years, Ukraine has been going through a period of political crises and economic instability. The poor and arbitrary policies of the years 2005-2009 were exacerbated by the global financial and economic crisis pushing Ukraine to the very edge of survival as a state and a political nation. Warnings about a possible disintegration of Ukraine, flaring up of civil unrest and prophecies of an impending economic collapse began to be heard with a growing frequency.

A disturbing array of economic, social and political problems and the lack of structural reforms in the country's economy, public management, and social sphere have resulted in putting Ukraine on the list of the countries that were hardest hit by the world crisis. Ukraine ranks 69th in the world in terms of the overall living standards as evidenced by the standard-of-living ratings provided by the Institute for Applied System Analysis, Ukraine, and the WDC International Data Base.

Ukraine ranks 69th in the life security category of the said ratings, while the World Competitiveness Yearbook 2010 puts Ukraine in the 57th, the last but one place. The Heritage Foundation and The Wall Street Journal relegate Ukraine to the 162nd place among the 183 countries of the world in the economic freedom ratings. According to expert opinion, Ukraine trails behind other European states, particularly in terms of business environment and corruption. Transparency International corruption ratings rank Ukraine 146th out of 180..

The world crisis and systemic internal conflicts have determined a **specific crisis-stricken course of Ukraine's development**. The society and the economy have become less sensitive of the development challenges as they keep struggling to survive.

At the same time, inability to meet the new challenges and deal with threats destroys public immunity and considerably limits public perception of the scale of the current problems, while requirements for politicians and policies become primitive. As a result, such issues as social progress and development have been pushed to a back seat in the mass consciousness.

The past three years have had a particularly damaging impact on the economy and public morals. Information neurosis accompanied the unending political confrontations in which the most complicated

issues of social development were used to provoke tension. At the same time it dramatically decreased public motivation for productive work, creativity, and long-term planning both in business and everyday life.

Politicized discussions of touchy historical events, wrong language policies, and excessive introduction of ideological issues into education aggravated the social climate. The problems that required an inter-social strata dialogue and attention to the needs of ethnic and cultural communities were treated as secondary.

The fundamental public institutions such as education, health care, protection of the aged, maternity care, spiritual and cultural needs were all neglected, while humanitarian policies were replaced by declarations thus devaluing the constitutionally secured ideals of the socially oriented state.

All of the above has pushed the level of social animosity and confrontational attitudes up, it has disoriented many citizens and paved the way for the spread of paternalistic sentiments and simplified requirements in the Ukrainian society. Lack of palpable changes in the economic and political life further consolidated that frame of mind and pointed to the public crisis of aspirations and hopes for the future.

After the post-Soviet reforms at the late 1990s and early 2000s were over, Ukraine failed to move on to the critically important **“new wave” of modernization reforms**. As a result, most of the processes and transformations that had been started remained uncompleted or insufficiently developed, and some were perverted.

The political system of Ukraine proved to be ineffective or even non-functional.

Confrontational attitudes and dualism in the highest echelons of executive power, weak self-government, corrupt and dishonest courts of law, underdeveloped political parties are some aspects of the problem but not the whole of it.

Excessive politicization has become the dominant feature of the system of power in Ukraine at every level. Political “privatization” of state institutions and a partisan approach to manager appointment policy have led to increased confrontation between various branches of government, complicating horizontal cooperation and implementation of national programs.

The Ukrainian Parliament worked without an effective parliamentary majority for a long time. Political corruption and underdeveloped political parties resulted in regional encapsulation which further complicated internal integration processes, cultural and social dialogue among various parts of Ukraine, and distracted local governments from dealing with community problems.

As a matter of fact, Ukraine has faced a constitutional crisis – the Constitution and the citizens’ rights found themselves fully dependent on the government and were further eroded by confrontational attitudes. As a result, basic rights and freedoms were not supported by the government policies, reforms, or effective courts.

Widespread political populism championed a simplified version of ideological doctrines.

An extended political war and confrontation between various branches of government, political corruption, abuse of power and economic crimes dramatically decreased public confidence to the state and the government, bringing it to a *record low*.

Ukraine’s economy and social relations suffered heavy losses during the peak stage of the global financial and economic crisis.

In the course of twelve months between the last quarter of 2008 and the third quarter of 2009, Ukraine’s economy exhibited all the classic signs of economic depression – a sharp fall in industrial production, paralysis of the financial and banking system, a catastrophic state of public finances, and a threat of the social security collapse.

At the peak of the crisis, Ukraine’s economy lost 20.3 percent of the GDP in the first quarter of 2009, and the industrial production shrank by 31.8 percent in the first quarter of 2009.

Vulnerability of Ukraine's economy was caused by a number of chronic problems:

- domination of the raw material industries such as mining, agriculture, and chemical industry;
- heavy dependence on the price fluctuations at the foreign markets;
- low energy efficiency in production;
- worn-out production assets and facilities;
- poorly developed internal market.

Nonetheless, the impact of the crisis could have been cushioned by a structural reform to give the government levers of active control of the economic processes and economic planning, expand the investment functions of state policies and mobilize the internal investments resources for economic development.

Unfortunately, in the years preceding the crisis, the government had removed itself from exercising control over the quality of economic growth. The basic function of the government had come down to ensuring current consumption and redistribution of resources through the national budget. Powerful state-run companies were used only as donors for the budget. The state failed to protect the interests of the domestic market and of Ukrainian producers and turned into a superstructure over the national economy.

Ukraine's foreign policies were even less prepared to rise to the challenges presented by the crisis. While at home Ukraine was embroiled in political scandals and suffered economic failures, at the international arena the country was rapidly losing partners and trust. Hectic attempts to join NATO did not receive the necessary support. Likewise, the European integration policies were not backed by real action. The administration's eastern policy was fragmented and poorly substantiated. Relations with the Russian Federation, a strategic partner for Ukraine, went from bad to worse as many links were broken, trade wars were fought, and gas agreements signed in 2009 proved to be very unfavorable for Ukraine. Such were the major letdowns in Ukraine's foreign policy.

Diplomatic and institutional support for industrial and investment cooperation was very low, as was support for integration of Ukraine's economy into the world and regional division of labor. Probably the only significant foreign policy achievement between 2005 and 2010 was Ukraine's accession to the WTO, but in view of the later crisis impact would be difficult to correctly estimate the results of trade liberalization. Poor protection of the domestic market amid the crisis contributed to negative trends taking root.

Therefore, **the factors that contributed to the worsening of crisis in Ukraine were the absence of reforms, inefficiency of the "old economy", persistent domestic confrontational attitudes, and wavering foreign policies**, coupled with the global crisis effect.

3. Ukraine has a Chance

The year 2010 proved to be a turning point. The intensive presidential election campaign opened a path to more effective government policies. Confrontational attitudes, obstructions and hurdles that had hampered coordinated action were removed.

Within a short time a new parliamentary coalition was formed. The coalition formed a new government and an executive vertical in close cooperation with the President. The new administration offered strategic prospects and consolidated cooperative efforts.

The national economy is displaying positive signs: business activity and industrial production are gradually rising, financial sector tensions are decreasing, and the labor market is regaining strength.

Within a short period of time, the administration has stabilized relations with the Russian Federation, the European Union and the USA which are regarded to be Ukraine's strategic partners, and the dialogue and cooperation with leading international organizations and institutions have resumed at a qualitatively new level. Ukraine has begun to recuperate confidence of foreign investors and creditors.

This creates preconditions for a **new course toward profound reforms and a systemic modernization** covering every aspect of social life and completing the "new wave" of social and economic transformations.

The **new course targets the individual Ukrainian as a unique personality, a citizen, and a patriot.**

A new infrastructure, new jobs, new social and industrial technologies, and social security are empty words unless the phenomena they denote are working to reach the humanitarian goals of social development, economic and spiritual freedom, health care, protection of life, and human rights. Society must provide guarantees that these rights are asserted.

The new course secures the Ukrainian people's right to choose their own way of development. It reinforces the Ukrainian identity as a political nation and a consolidated, multicultural community, and it supports internal dialogue to achieve integration of society on the basis of humanitarian values and tolerance as the supreme values regardless of religious affiliations and political leanings. It champions civic unity as the foundation upon which joint action should be taken, and citizens' patriotism encouraged.

Modernization of Ukraine and efficacy of the "new wave" reforms should become a launch pad for achieving a historic consensus in forming a consolidated nation and asserting Ukraine as a modern, democratic republic. Ideals of republicanism and civil society will encourage the nation and every individual citizen to participate in the joint reformist effort.

The broad social base for reforms, positive changes in the country's economy, stability of the government and confidence of international partners give us hope that the current stabilization processes will take root and systemic reforms will have an effective start.

What is the new agenda?

- Ukraine's political system should be modernized and its republican foundation should be strengthened. An effective, efficient and responsible executive power should be created and made accountable to the civil society. Judicial reforms must be carried out, self-government principles should be developed, and new regional policies should be introduced;
- civil rights and freedoms should be protected; the rule of law and democratic principles must be secured;
- corruption should be combated and **grey economy** must be forced to become legal;
- far-reaching "new wave" social and economic reforms should be implemented to move to a new model of economic development based on the innovative investment model of *preemptive modernization*; a nation-wide innovation infrastructure should be built;
- Ukraine's economy should become competitive as a precondition for national consolidation and development of a modern, high-tech economic structure;
- social dialogue should be resumed, a stable civil and political peace should be established, and national consolidation secured;
- new humanitarian policies should be introduced to assert humanistic ideals and values as a foundation for development of the Ukrainian political nation, its ethno-cultural communities and every individual citizen, and development of a single national humanitarian space;
- foreign policy and security policy of national pragmatism should be conducted on the principles of openness, nonalignment, and sufficient defensive capability to achieve best economic and political results favorable for Ukraine's national interests;
- Ukraine's European choice should be implemented to establish a common free trade area and acquire associated membership in the European Union.

Ukraine is going to study the experience of the world leaders that have gone through systemic crises but managed to find successful responses to the challenges of the time. The United States of the times of Great Depression, Japan and Germany after WWII, China with its new ambitions have proved that there are no universal solutions, however there are such things as commitment, confidence, and belief in one's own resources, an overwhelming desire to bring about positive changes. Experience of such countries also shows that there is always room for mutually beneficial international cooperation.

Ukraine has a chance to succeed. The new course will bring about the changes, affirm humanistic values and democratic principles in Ukraine's development. The success will come through a joint effort of all the citizens of Ukraine.

Part 1.

THE MAKING OF A REPUBLIC

Chapter 1.

MODERNIZATION OF THE POLITICAL SYSTEM AND DEVELOPMENT OF CIVIL SOCIETY

1.1.1. The republican idea and historic consensus

Indiscriminate borrowing of western concepts of social and state development, and lack of related experience among the Ukrainian elite have led to prolonged efforts to apply inadequate algorithms of state building. Attempts were made to develop a democracy and a market economy without concurrent development of social institutions of a republican type that provide for a wide and conscientious participation of citizens in national decision making. Citizens are also expected to respect democratic principles upon which their interaction should be based, with each individual citizen being recognized as a subject of all social transformations. The absence of such factors has resulted in the erection of “a democratic facade” and in causing considerable warps in the economic development of Ukraine. Ukraine’s society was polarized and it lacked a nation-wide consensus on the most important issues of social development, with the resulting social and economic instability and institutional misbalances that affected certain government elements and the whole model of Ukraine’s development. Several consecutive Cabinets in Ukraine could not comprehend that there was a direct interrelation between the chosen model of social development and the processes of social and economic stagnation, which made the crisis in Ukraine ever more systemic and profound.

The solution is a review of the institutional nature of the Ukrainian state, its historical mission, and its social and cultural essence. The Soviet matrix built into the foundation of the Ukrainian state, kept reproducing the relations in society that distorted the notions of political freedom, equality before the law and the right of equal opportunities, the notions that were declared the Ukrainian public goals. As a result, there is practically no element of republicanism in the Ukrainian social and political relations, and further development of the Ukrainian society becomes problematic without such an element. Therefore, a transformation of the whole system of social relations and of the political system in Ukraine is badly needed. **A true republic** (from Latin *res publica*, joint cause), which is united by the common effort of its citizens, must be created. **A nation-wide republican consensus should become a new public deal for Ukraine.**

At present the ideas of republicanism determine the development of all the developed countries of the world; these ideas take institutional shape in cultural, political and social dimensions.

The political dimension is related to the general suffrage which creates the foundation for the development of democracy by involving the public in policy development.

The social dimension is based on a notion of society as a common good and on each citizen associating one’s destiny with the future destiny of the community one belongs to.

The cultural dimension helps create a unity of citizens which is formed through a non-discriminatory inclusion of all the ethnic, religious, and social groups.

These three republican dimensions are the heart of a new project of the Ukrainian nation which should be based on effective institutions of people’s representation and on the idea of citizen involvement in social development. It is deemed to be a realistic way out so Ukraine can get out of its current social and political stagnation. The starting point in building up republican institutions should be Ukraine’s economy which must be reformed along the principles of joint responsibility of business, society, private employers and employees.

The main achievement of republicanism lies in the understanding of the state as an institution of common heritage, a national historical legacy which requires special mechanisms to be maintained through new forms of government action and political procedures. These mechanisms should involve every citizen in political governance and make the state institutions answerable to the public – herein lies an innovatory approach.

Implementation of the ideas of republicanism in Ukraine's political life should be based on a number of principles.

The **development of multilateral political dialogue** is one of the basic premises. Establishing political culture of a consensual type and discarding the “struggle-of-all-against-all” principle are the priorities, and political dialogue should be viewed in the context of improving the government system and cooperation of the key political actors. Its key elements are constant interaction between the government and the society, formation of a politically active society and efficient mechanisms of shaping social interests, and accountability of the government to the society. Social interests should be well represented in the government.

In view of these requirements, the current model of democracy needs corrections: **the representational democracy needs to be complimented by participational democracy and democracy of discussion**, thus broadening direct democracy formats.

The next principle to be introduced is “**deprivatization of politics**”, i.e. the influence of certain interest groups on government should be curbed and a wider representation of interests of larger social groups should be instituted. In view of the fact that business/political groupings have become active participants of the political process in recent years, and Ukrainian politics can be easily likened to business activities in many respects, “deprivatization of politics” should also be viewed as intelligent “de-economization.”

Ukraine can overcome the political disorganization and move on to new political practices only by rehabilitating post-economic values in the social conscientiousness, and recognizing the **preciousness of common good and the priority of social interests**.

Establishing **a tradition of responsible politics** should become an important principle of republican modernization; responsible public authorities should be formed simultaneously with developing a culture of the citizen's responsible political choice.

The new project of **a Ukrainian Republican State** based on these principles must become a basis for consolidation of all the driving forces of the society to achieve the objective of turning the population of Ukraine into a statehood-minded nation. It is a key prerequisite for making Ukraine a socially developed economy and a culturally rich country aspiring to become one of the world leaders of the 21st century.

1.1.2. Development of civil society

Civil society as it functions in all the democratic political systems, is a systemic factor of a republican political structure. **It is civil society that is a major element in bringing about the republican principle of a common cause** whereby the public combine their efforts in order to solve common problems.

The quality of the Ukrainian civil society will largely determine the success of “resetting the state” along the principles of republicanism. It is the civil society that is an integrating force capable of harmonizing the interests of the general Ukrainian population and of separate social groups. Together with the state, it is the key subject of societal reforms. Boosting the **development of civil society as a key participant in bringing about a new public deal** is a priority for today's agenda. New approaches are required to carry out strategic plans of Ukraine's statehood-building process, and engage the public in the process of social and political decision-making. People should be encouraged to be socially creative in public activities and develop the civic culture.

The current state of Ukraine's civil society reveals its inadequate role as an actor in social reconstruction processes.

There are eleven civil society organizations in Ukraine per each 10,000 of population; by contrast, Hungary boasts 46 NGOs per each 10,000 of population, Croatia has 85, and Estonia has 201. Besides, expert opinion tends to consider most of public organizations as only existing on paper. Participation of Ukrainians in NGO activities is low.

During the past several years, a certain rise in public activity has been observed, but it mostly took the form of spontaneous local protest actions oftentimes provoked by contentious decisions of the central or local authorities. At the same time, the mechanism of representation of the public' interests in the local and central governments are not functioning efficiently. Civic councils and advisory institutions have either not been set up at most central and local agencies altogether, or in cases when they have been set up, they exist only nominally. For example, only about 50 percent of civic councils at the local and central executive agencies gathered for their sittings more or less regularly in 2009. Self-regulating public organizations, a basic unit of local self-government, is an important institution for civic activities that has not yet been properly developed in Ukraine.

Poor public readiness to participate in civil society activities slows down considerably the formation of effective and influential public organizations. Most of Ukraine's citizens are still convinced that they are unable to defend their rights and freedoms or influence decisions that concern their political, economic, social, cultural and other interests. They see no access to decision-making, especially at the local level.

The basic reason why the civil society is underdeveloped in Ukraine is a lack of social capital, i.e. standards and values which enable social groups to undertake common action. This is caused by two major factors:

- significant weight of pre-modern forms of social integration in which interpersonal family or tribal contacts outweigh the nationwide considerations – one of the examples of this is nepotism and cronyism;
- legacy of the Soviet authoritarian state tradition that was based on a vertical social subordination model which determined relations of citizens and state rather than on a horizontal model of relations in which a horizontal citizen-to-citizen model works.

Consolidation of public trust and development of the social capital is a task for all of the society that cannot be achieved only by government policies. At the same time, a targeted policy to support the civil society development can play the role of a *growth point* in the development of a new culture of interaction between public authorities and the society.

One of the key principles of that policy should become a new understanding of de-regulation in the sense of expanding the capacity of civil society institutions in performing certain social functions while gradually reducing the state's participation in solving social problems. Such deregulation should concern not only economic actors but NGOs as well. Civil society organizations, just as local government agencies, can be given a certain measure of authority by the government so certain government functions can be delegated to them.

Another principle is the formation of a **new conceptual understanding of direct democracy** which would take into account the peculiarities of Ukraine's current political system and the level of development of its basic institutions. It should also create conditions for the growth of the middle class and provide the public with information that concerns their rights and possibilities to influence government decisions. The European experience of government-public interaction and participation of citizenry in local problems should be promoted. At the same time, the Ukrainian legislation that deals with creation and functioning of civil society organizations must be improved. Local initiatives should be given legal support as well as local meetings of residents, and the way the authorities, local and central, should react to public demands and requests.

It is high time to develop a new philosophy for institutes of interaction between the authorities and civil society organizations, such as public councils at the executive agencies. It should stop the current centralized, almost authoritarian model of setting up councils by the government and support formation of the councils by socially active NGOs. Transparency and information openness in the work of public councils should be firmly adhered to.

Effective dialogue between the government and the public requires a common intellectual space which must be formed through constant expert cooperation between the authorities and independent think

tanks, and participation of civil society experts in developing government decisions, providing analysis and forecasts. Creative competition and mutually beneficial convergence of alternative projects targeting key problems of the society should be maintained.

A wider use of NGO experts and activists should be practiced by the central and local governments as an integral part in the interaction of the authorities and the civil society.

Formation of a single national identity that embraces all the citizens must be an important task to fulfill as the civil society is being developed. Political speculations that blow up the currently existing regional differences contribute to the preservation of pre-modern form of social communication – family and ethnic community principles, hindering development of a culture of public interaction and social trust. A key priority therefore is the development of national programs to promote civil society growth and creation of national and inter-regional NGO coalitions.

However, no development of civil society would be possible unless it is supported with proper resources. Another principle for the government is encouragement of socially important work that civil society organizations carry out at the level of central and local budgets. Material and financial aid in various forms should be provided to help set up self-governing community organizations.

The strategic aim of the state policies in encouraging civil society expansion is to support the development of civil society as a fundamental institution that provides effective protection of rights and freedoms of citizens, satisfying their interests and needs and thus promoting social progress. Ukraine needs a new quality of civil society performance in the form of active participation of NGOs and of each individual citizen in devising and implementing state policies, strengthening the national statehood, and in achieving social and political stability.

An active civil society is one of the cornerstones of a democratic political system, an instrument to solve social problems, a key factor in providing public institutions with resilience to critical challenges and a guarantee for sustainable development.

1.1.3. Rule of law

One of the most important institutional principles of a republican state is the rule of law. It provides full implementation of three basic dimensions of the republican idea: it forms a unity of all the citizens without exception into a nation where people are the only source of power and sovereignty; it legalizes concerted efforts of citizens in governing the state; it promotes understanding of the society as a common good.

Effective rule of law, public confidence in the legislation and the feeling of being protected by law are the prerequisites for productive social activities of the Ukrainian citizens, and a comprehensive development of the society.

Unfortunately, Ukraine still faces many problems as it tries to build up a state to be ruled by law. The country has not done away with the consequences of the long rule of the autocratic type of government characterized by legal positivism. All the branches of government must urgently unite their efforts with civil society institutions so the rule of law principles can strike root in lawmaking, in law enforcement and justice administration, in the work of the executive power and local self-governments, and in legal education. It is the principle of rule of law over state and over legislation that is one of the most precious achievements of mankind.

Legislation in Ukraine must be subordinate to the rule of law, as well as the organization and activities of public authorities, particularly in administrative and judicial areas. The institutional development of Ukraine's legal system must meet therefore a number of basic requirements.

1. *Standards of behavior that are established by rules and legislative acts should be understandable for the public.* There should not be situations when several laws regulate the same social relations, when by-laws contradict the law, when local authorities use directives rather than laws, when legal provisions are formulated in such a way that different interpretations are possible, when explanations substitute legislative acts, etc.

2. *There should be stability and continuity in Parliament's lawmaking and in governmental work of the executive agencies and of self- government.* On the one hand, the state must react swiftly and effectively to meet new requirements in settling up all sorts of social relations. On the other hand, it is necessary to stop the practice of changing "the rules of the game" that leads to unstable legislation with unpredictable development. There is no justification for situations when key matters in social relations are regulated by laws that are 30 or 40 years old, and that have long ceased to correspond to the changing times and needs of society. Hence the main task – to provide a proper balance between stability and dynamic development of legislation.
3. *Legislation that regulates certain relations must be uniform.* It is unacceptable when differing decisions are made to regulate similar matters.
4. *Legislation should comply with the modern global standards of human rights and freedoms.* The state must be accountable to the public for its activities and for fulfilling its obligations in protecting rights and freedoms of individual persons and of citizenry in general. It is not only Ukraine's obligation to its citizens – it is Ukraine's obligation to the world community. By ratifying many international agreements that concern human rights, Ukraine has pledged to ensure implementation of these agreements. The legal nature of these commitments in accordance with the provisions of Articles 26 and 27 of the Vienna Convention on international agreements provides for the fulfillment of all the obligations without any exclusions by all the branches of government, and by all non-governmental and governmental institutions at all the levels, from the national and down to local ones. Not a single provision of national legislation, the Constitution including, or any **political, cultural or economic circumstances in Ukraine can be an excuse for not fulfilling the assumed obligations.** A comprehensive review of the way Ukraine fulfills its international obligations in accordance with human rights agreements is an important task for all the local and central authorities, and it should be carried out to have any gaps or loopholes removed.
5. *The legal acts must correspond to the general principles established by the Constitution of Ukraine, such as freedoms, justice and equality.* To achieve this, it is necessary to:
 - provide high quality of draft laws and by-laws, and pass a bill on by-laws;
 - develop and adopt laws only when they are truly needed or justified;
 - make laws more accessible, particularly through publications, and engage broader the civil society in preparation of by-laws.
6. Legal acts must not have any retrospect force, and the scope and content of human rights and freedoms should not be restricted by new bills or amendments to the existing laws. No laws and by-laws should be adopted if they impose moratoria and other temporary restrictions of people's rights.
7. Institutional flaws of the judicial system of Ukraine must be removed, among them:
 - delays with case hearing by the courts;
 - failure to provide public legal aid;
 - low quality of court rulings, which is proved by a considerable number of rulings appealed and overturned in appellate courts;
 - failure to enforce rulings;
 - poor material and technical condition of the courts.
8. The law enforcement agencies must comply with the constitutional principle of the rule of law. To achieve this, Ukraine's prosecution must be reformed in a systemic link with the government efforts against combating corruption. It is necessary, with the experience of other countries taken into account, to clearly delineate the authority of the prosecutor's office and that of the specialized counter-corruption agencies.

1.1.4. Improving constitutional design and implementation of the constitutional reform

Development of the system of social relation based on the principles of republicanism requires reforming Ukraine's political system to make it more representational. The latest amendments to the Constitution have created good preconditions for that. Their implementation has made it possible to move on to a parliamentary-presidential model of government. Within this model, the **Ukrainian**

Parliament as the highest representational body was given a number of institutional advantages thus increasing its authority in the political process. It is the parliamentary-presidential system that is probably the most popular among the countries with a developed republican model of government.

At the same time, the authority and functions of the executive branch of government as established by the Constitution, contain **considerable institutional discrepancies**, namely:

- Verkhovna Rada is institutionally overloaded with power while being institutionally underloaded by political accountability to the Ukrainian people;
- there is no practical mechanism for government resignation resulting from breakdown of the coalition that formed the government;
- there are no effective institutions and mechanisms of public control in case one of the branches of government fails to fulfill its constitutionally imposed obligations;
- lack of coordination between the constitutional reforms of government institutions at the central and local levels;
- there are no protection mechanisms for local communities in the proportional system of forming local representational bodies— such absence is fraught with danger of centrifugal forces gaining in strength;
- the laws that regulate government activities are not adapted to the constitutional amendments of 2004, which hinders effective government functioning in the new conditions.

Constitutional design of Ukraine's political system can be improved or at least lessen the said discrepancies within the existing parliamentary-presidential system.

Improvement of the constitutional design of Ukraine should be carried out along the following lines:

- **streamlining the parliamentary-presidential system** as an effective algorithm of the central power division based on the following principle: **strong president - strong government - strong parliament**. The President of Ukraine in this case performs a general political leadership; the Prime Minister administers the economy, and the Ukrainian Parliament is the institution to coordinating positions of the leading political actors;
- stabilization of Ukraine's political system on the basis of political compromises and effective functioning of the mechanisms of consolidated democracy; creation of conditions to develop a **social consensus about historical and strategic reference points**; raising Ukraine's competitiveness along the road of democratic development and state-building progress; overcoming internal political threats to the national security of Ukraine.

The corresponding institutional steps should be taken in the following sequence:

- analysis and correction of organic legislation (laws prescribed by the Constitution);
- streamlining the power model in the triangle between the President of Ukraine - Verkhovna Rada - Cabinet of Ministers.
- reform of the election system;
- judicial reform;
- reforms of local self-government and administrative-territorial divisions.

The main attractive feature of the improved parliamentary-presidential model of the political system for developing democracies lies in the fact that it enables an immature state with a multi-party system and volatile ruling coalitions to avoid instability in Parliament.

An important stabilizing role of the president's position in the parliamentary-presidential model lies in the fact that the **president as the head of state is the highest-ranking official who maintains the continuity of power, prevents social confrontations, and guarantees the protection of human and civil rights and freedoms despite changes in the makeup of the parliament and the cabinets** at the moments of acute political crises such as government resignation or rising tensions between various social and political groupings.

The parliamentary-presidential model has a further advantage related to **accountability and identification**. Electoral accountability makes it possible to determine to which extent the elected politicians are answerable to their electorate, while identification makes it possible for the electorate to effectively use their right to receive information and express their wishes as to the makeup of the next government. The more the choice made in the election time lives up to the expectations of the electorate, the higher is the electoral activity. The **parliamentary-presidential model of govern-**

ment with many political parties taking part in elections is more conducive to the establishment of direct accountability of elected public servants and officials to the electorate than a purely parliamentary mode. Direct presidential elections provide for maximum accountability, and parliamentary elections provide for maximum representation.

1.1.5. Reform of the electoral system: elevating the role of the electorate and increasing accountability of public authorities

The current proportional electoral system in Ukraine is not adequate either from the point of view of democratic development prospects, or from the point of view of the electoral resources required to stabilize the country's political system. The present electoral system was intended to be a temporary compromise creating a foundation upon which Ukraine's multi-party and political space would be developed, however it has failed to come up to the expectations that were invested in it.

The introduction of a proportional electoral system at the nation-wide level in Ukraine has brought mixed results. On the one hand, if compared with the mixed electoral system, it affected positively political structuralization of the society and provided a more adequate proportionality between the number of votes cast for the parties taking part in the election, and the structure of the Ukrainian Parliament.

On the other hand, it made impossible for the voters to influence the party personal lists. It negatively impacted, firstly, the links between the voters and the elected MPs, thus the MPs' political accountability; secondly, the professional level of MPs was affected, and thirdly, the proportionality of regional representation in Ukraine's Parliament suffered, too.

That is why **the electoral system must be reformed with a view to change the system of representational democracy in Ukraine so as to increase public influence on forming local and central authorities.** Therefore, the main goal is to look for, and implement an optimum electoral system to form legitimate and effective representational bodies of various levels, promoting greater public influence on the formation of legislative institutions and meeting the requirement for a proper level of personal political accountability of the future MPs. It will also be conducive to greater political structuralization and development of Ukraine's party system.

Hence the most important tasks of the electoral reform are to:

- provide adequate representation of interests of various social groups;
- increase accountability of members of Parliament and of other elected bodies to the electorate;
- increase public control of the representational institutions;
- foster further development of the party system, so that fully-fledged national political parties will come into being;
- clearly define the role of the public in forming representational bodies of power.

The following changes in the electoral system at the national level will be needed:

- 1. Introduction of national vote for regional party lists** to overcome the disproportionate regional representation in Ukraine's Parliament. Such a system will make it possible to deal with one of the most pressing problems – how to strengthen links of MPs with their electorate. Voters should cast their votes not for an abstract political force but for individual persons who enjoy popularity and respect in a given constituency. Parties will have to change their approaches to enlisting their supporters and will have to pay more attention to the regions.
- 2. Introduction of a differentiated electoral threshold** for individual parties and party blocs to promote party building and give the party system of Ukraine more stability. The optimum bottom level should remain at three percent as it is now for individual parties, and five percent for blocs of parties which are composed of more than three parties, with one percent added for each party in a bloc above the basic three.
- 3. Presidential and parliamentary elections should be concurrent.** When the functions and prerogatives of the President and the Prime Minister/Parliament verticals are clearly established, such a synchronization is necessary to consolidate the executive and legislative powers by conducting at

the same time parliamentary and presidential elections; it will facilitate the process of coalition development in Ukraine's Parliament, and appointment of a prime minister who shares the President's political views.

- 4. Introduction of permanent parliamentary rotation** which is effectively practiced in many countries of the world – for example, in the USA, India, France, and other countries. The main objective is to create a feeling of “being kept alert by regular reelections” in the consciousness of party functionaries and other political figures. Half of the Verkhona Rada members – 225 persons, can be reelected every two years, with the full term of an MP in office being four years. Such an increase in the dynamics of election cycles together with elections held at national or local levels at various times can help solve problems of political parties' accountability to the public, and boost the plebiscite function of the election campaign.
- 5. Introduction of open and preferential party lists.** The level of political corruption in Ukraine is and endemic, therefore high positions on the party lists which guarantee a parliamentary membership are sold to the highest bidders, and such a phenomenon as “quotas for party donors” have appeared. All that calls for maximum transparency of the party lists. An effective instrument to solve the problem is to open up the lists so that voters can see the lists in their entirety and can cast their ballots for a particular candidate regardless of his or her place on the list. In this case, the candidate who originally had a low position on the list but would then gain support of the electorate can still be elected.
- 6. Parliamentary parties should be financed by the state.** Planning and financing the party building process with “grey” capitals or thanks to oligarchs is an unacceptable risk to national security. Should the state take upon itself financing of political parties for five or seven years, a mid-length term, it can protect the future party building against the diktat of a narrow circle of “party donors.” Financial contributions to the legal activities of the parties that get into Parliament can also be made dependant on the number of votes they win.

The changes suggested above will permit to stabilize Ukraine's political system, raise the legitimacy of the executive power, make political decision-making more efficient, and raise regional representation in Ukraine's Verkhovna Rada. A significant result of implementation of these suggestions will improve Ukraine's electoral legislation and will help achieve greater political accountability of both political parties and separate MPs to the public, and improve the role of the public in the process of forming representational bodies of government.

1.1.6. Constructive dialogue between government and opposition

The development of the political dimension of republicanism lies, ahead of anything else, in the establishment of an institutional foundation for the development of democracy, i.e., the institutional capacities needed for various social interests to be represented and their differences attended to. The institutional readiness of political opposition should be looked at as a characteristic feature of a republican state and an indication of the political mechanisms for representing interests of various social groups and for settling differences among them. Such mechanisms are a part of a system of checks and balances in relations among various branches of government and the public. Institutionalization of political opposition is also a mechanism of engaging the public in political governance.

Political opposition provides an opportunity for various social groups to present a wide spectrum of their interests. In constructive interaction with the government, it can find ways of reconciling differences that emerge or exist between various groups. The establishment of mechanisms of social dialogue will contribute to the emergence and strengthening of the social consensus and improving the public nature of Ukraine's political life as it takes into account the interests and differences among various social groups in the process of taking decisions of state importance.

The absence of political opposition and of legitimate channels for making their views implemented poses a threat to the consolidation of society on the principles of republicanism. It narrows possibilities for social dialogue and for working out alternatives to government policies, and makes it impossible to achieve comprehensive representation of social interests in the public authorities and their effective support. It raises the level of social instability, it provokes political apathy of the public or, conversely, helps events to deteriorate into conflicts and confrontations with the use of force.

During the previous stage of modernization of Ukraine's political system, after the amended Constitution came into force in 2004, an institutional and legal basis was established that was solid enough for effective work of the political opposition. Politically and legally, conditions were created for political competition of the pro-government parliamentary majority and the parliamentary opposition. Consequently, it is only a poor level of the opposition's competence that can prevent the opposition from professionally opposing a parliamentary majority and the Cabinet it forms.

However, in contrast to the parliamentary form of government in which the opposition activities of political forces can unfold only along the lines of "Cabinet – pro-Cabinet majority – parliamentary opposition", the current Ukrainian model makes it possible for political forces to be in opposition to the President as well, and this circumstance makes the role of the President all the more important in ensuring cooperation of the pro-government majority and the political opposition.

The constitutional status of the President as head of state and guarantor of the Constitution, of human rights and freedoms of citizens, gives the President real possibilities to be a guarantor of the rights of the political opposition as well, and a moderator of the nation-wide dialogue in crucial issues of public life within the republican project of Ukrainian statehood. It is the President who can effectively prevent direct confrontations of the Cabinet and the opposition by maintaining constructive and beneficial dialogue with the opposition political forces. It can prevent:

- shattering of the country's social and political foundations;
- rising popularity of populist political forces based only on nothing but radical criticism of government's activities;
- deterioration of Ukraine's international image so it looks as a politically unreliable partner.

One of the important tasks of the President of Ukraine in this context is to **prevent conflicts of authority between local and central government institutions**. The constitutional responsibility of local governments is representation and protection of interests of local communities, which does not suggest that they can be opposed to the central government. This can be regarded as a violation of the constitutional prerogatives of local self-government agencies that results from the deficient vertical chain of command and of communication within political parties, and from low effectiveness of representation by political parties of the interests of local communities at the national level.

In this context, the dialogue of the President and the opposition will contribute, on the one hand, to smoother functioning of the local governments within their constitutional frameworks, and on the other hand it will give a boost to the development of democracy within the parties thus promoting an effective multiparty system.

To consolidate democracy, the opposition should perform such functions as criticisms and control of the government programs and their implementation, development of alternative policies, engagement in policy making. Therefore the interaction between the President and the opposition should be conducted along the following lines:

- inviting representatives of the opposition for round-table discussions of social, economic and political reforms;
- holding public debates with participation of the opposition on the content of development programs which are to be approved or rejected;
- participation of opposition representatives in preparing and carrying out sweeping social reforms through the use of development policies proposed by the opposition; participation of the opposition experts in the work of advisory institutions under the President of Ukraine.

Dialogue with the opposition is a political instrument that brings democratic solutions to Ukraine's social, economic and cultural issues. Confrontational practices in Ukraine's politics will be overcome by shifting the focus in political issues to essential aspects of forming national policies and their further implementation. Dialogue must be conducted in such areas as programmatic basis for economic, social and cultural reforms and state building policies. The social consensus that can be reached through the dialogue will reduce the dependence of the political course of Ukraine on electoral cycles and will avert sharp fluctuations of national policies as political leaders change at the helm.

Successful dialogue between the government and the opposition will produce a string of positive consequences.

Firstly, presentation and well-argued defense of alternative government policies will raise the quality of Ukrainian politics; it will lead to the emergence of new professional politicians, it will maintain the continuity in the political courses of Ukraine and will ease the task for the opposition forces – when they win at elections – of keeping up the work of the state mechanism.

Secondly, such a dialogue forms demand for alternative and competitive views on the ways national policies are carried out, and thus it may contribute to intellectualization of these policies. Competition of political forces in the strategic realm will open up the way to a more effective use of the intellectual capital that has been accumulated in Ukraine. It can also raise the level of professional analytical and expert support of the political activities.

Thirdly, a wide discussion of public issues with well-rounded arguments dealing with the whole spectrum of social interests would form a better understanding by the public of the immanent diversity and multiplicity of the Ukrainian society, cementing the national identity and understanding of society as a common good.

Continuous dialogue among various political forces, between the parliamentary majority and the parliamentary – and non- parliamentary – opposition, will therefore contribute to the consolidation of society on the basis of national interests, to political stability, to raising the level of legitimacy of the Ukrainian political system, and to intellectualization of the processes of governing, etc.

1.1.7. Development of local self-government

Effective modernization of Ukraine's political system based on the principles of republicanism will depend, to a great extent, on the success of reforms of local self-government, whose activities are an important indicator of the public's ability to collectively implement their interests.

The main problem of the local self-government lies in the fact that the system of turning the local *radas* (councils) into a democratic system of self-governing communities has been grossly outdated. One of the top priorities in the development of local self-government is to bring down barriers which bloc the transformation of local communities into the effective, economically viable key units of public government where everyone can have an opportunity to effectively represent and defend one's rights and interests by participating in local problem solution.

Correspondingly, **special attention in the process of reforming the local self-government should be paid to improving the mechanisms of implementing the citizens' rights' to participation in administering local affairs.** A successful social and economic development of local communities is impossible without cooperation of the local governments with the civil society, mass media, businesses, and individual members of local communities.

Participation of the public in the work of local governments can be achieved through such institutions as local and regional **councils of entrepreneurs**, particularly in establishing public monitoring of the ways the local governments follow the principles of regulatory policies when licenses and other permit documents are issued. Participation of the public in the work of local governments can also be achieved if economic activities are regulated at the local level, and a comprehensive control of the local self-governments is exercised.

Effective participation of the public in solving local problems is impossible without adequate protection of the rights and freedoms of the public at the local level. In view of this, the role of the local self-governments must be further enhanced by developing the institution of local ombudsmen, by widening the scope of public assessment of the decisions taken by local governments, and by asserting legal rights of the local self-governments.

A broader political participation of the public at the local level calls for a new way of representing public interests at the local *radas* of all levels. The proportional electoral system that came into force in the 2006 election to the local councils depersonalized representational institutions of local self-governments and distanced the public from administering local affairs and local decision-making; it also robbed the electorate of effective mechanisms of control over the elected officials. The mechanism of forming representational bodies of local communities on the basis of closed par-

ty has made them over-politicized, led to excessive party partisanship, and the quality of governing the local development dropped. Improvement of the electoral legislation must be directed at providing adequate rights for each citizen to elect and be elected. Members of local communities must have effective levers of influence on the formation of the local *radas*. At the same time, there must be legally established mechanisms that define responsibilities and accountability of the local *rada* members; each local community must be provided with an adequate representation at the councils of higher levels.

Another important task in reforming local self-governments is to fix a problem of their financing. Introduction of changes to the corresponding legislation should expand the right of local self-governments to find new sources of filling the local budgets, and at the same time reduce their legal dependence on *radas* of higher levels and on the local executive agencies.

Chief **priorities in the development of local self-governments** should be:

- **administration reforms;**
 - clearer definition of responsibilities of local self-governments and local state administrations;
 - clearer distribution of rights, responsibilities and accountability of local self-governments on the principles of subsidiarity and equivalence;
 - sufficient financial resources to enable local governments to carry out their responsibilities;
 - a universal public administration system, involvement of all the public administration participants, and development of an effective system to provide the population with good-quality public services;
 - introduction of necessary amendments to the Constitution of Ukraine and to the Law of Ukraine *On Local Self-Government in Ukraine* to set up executive committees of Oblast and District *Radas*.
- **improving HR quality and professional level of local self-governments employees;**
 - raise requirements for the level of education and qualifications of the public servants employed by local self-governments;
 - widely use up-to-date training technologies in the process of training cadre for local self-governments;
 - create training centers and “workshops” of municipal management at the local level;
 - encourage revamping of the local government managers, particularly with incentives for young people to work for local government agencies ;
 - promote HR professionalism to set up statistics at the level of village and small town communities as the basis for administering local finances;
 - use distance learning in the process of training, retraining and refresher courses for the local self-government managers;
- **engaging the public in local decision making and development of public control over local self-governments and their officials**
 - improvement and **simplification of procedures for local plebiscites**. Local referenda and public initiatives must become an effective instrument for local communities in the process of working out local policies and territorial administration. It is necessary to establish legislatively clear, understandable and simple rules for training, organizing, carrying out and assessing the results of the plebiscites and referenda held in local communities;
 - improving the process of **implementation of the decisions approved at the public hearings**. It is necessary to root out the use of public hearings as a way of manipulating public consciousness and a mechanism of legitimization of decisions which can be detrimental to the local communities. Communities must be given more rights in exercising public control over the work of the agencies and public servants of local self-governments;
 - clear regulations for consulting and advisory institutions at the local *radas* and local self-governments – public, political, social and economic councils. These advisory institutions must be given effective instruments to influence managerial decision-making, control their implementation, and prevent any abuse by public servants.

Chapter 2.

PRIORITIES OF MODERN HUMANITARIAN POLICY

Humanitarian policy plays a decisive role in the modern world securing sustainable development of the society and the state. It is nearly **impossible to ensure political stability, effective functioning of the legal system, progress of democracy, and economic prosperity in Ukraine without mechanisms and institutions aimed at securing national consensus and a national Ukrainian identity.** The idea of a strong, democratic, legal and independent Ukraine raises no objections in the society. Tendency toward democratic standards in politics and establishment of market foundations in the economy, the rule of law, and a comprehensive development of Ukrainian language and culture – this is a very incomplete list of the values that can form the foundation for civil consensus.

The humanitarian component of the state policy is responsible for formation of spiritual and symbolic space of a person and community through identification of a basic matrix of socially approved value orientations, vision principles, behavioral rules, and ideals acceptable in the society that, unlike phenomena of economic, social or political life, are rather conservative and stable constructs that root in mass consciousness at the level of archetypes and ‘nurture’ it for decades. In other words, **humanitarian policy directly constitutes symbols and meanings that fill informational, educational, cultural, and religious horizons of social existence and can both consolidate the nation and threaten its integral living.**

The long-term neglect of the humanitarian sector has caused a series of undesirable consequences: deconsolidation of the society, inter-confessional and inter-church confrontations, certain elements of inter-ethnic tension, inconsistencies in language policy, lack of trust vis- -vis public authorities, social pessimism, etc. Therefore, the agenda for all branches of power and respective institutions contains an important task of **building a consolidated Ukrainian society.** Beyond doubt, the humanitarian policy, of all things, should play a key role in the process of building a **consolidated society** in Ukraine.

Consolidated society is a community that exists on the foundations of mutual support and consists of citizens that pursue **common goals through democratic means.** Instead, exploitation of linguistic and cultural contradictions in political confrontations increases the probability of conflicts in the Ukrainian society as it transforms the existing differences into challenges. Therefore, formation of a Ukrainian political nation requires humanitarian strategies that would reduce negative influences of socio-cultural, confessional, ethnic, linguistic, interregional and regional nature.

The subject is the new national humanitarian policy as a model of development supporting the best possible features of every person’s potential and enabling application of one’s intellectual, cultural and creative abilities. The strategic objective of a modern humanitarian policy is the formation and development of a consolidated Ukrainian society, capable of achieving a high level of political, economic, spiritual and cultural organization that can ensure protection of national interests and entry to the European, as well as global space with equal rights. Such policy can **be a platform for consolidation and catalyst for development of a common humanitarian (intellectual, informative, social and cultural) space.**

1.2.1. Objectives and priorities of humanitarian policy

Numerous historical examples confirm that **the nation that loses or is deprived of attributes of its national and socio-cultural identity is unable to organize itself politically and create its own statehood,** and it is doomed to be assimilated by an expansionist culture.

Cultural, linguistic, and confessional difference of the regions, different society development concepts, tendency toward supporting different, and sometimes opposite vectors of foreign policy have

not allowed the Ukrainian state, after it regained its independence, to achieve social unity, common ground, and common vision of perspectives for future development. Thereby the **humanitarian policy** in the new political conditions is called **to accumulate transparent, understandable meanings and imagery of the future** which would be equally acceptable for the residents of the East and the West, the South and the North of Ukraine.

Beyond doubt, we lose our future when we forget our past. However, it is equally true that **the society and the government that do not take creative and thoughtful care for their future have neither the future, nor the present**. Still, numerous tragic pages of the past that fill the old and recent history books of all nations still prevent the Ukrainian society and state from implementing a common **nationwide project for building a common future**.

Growing negative tendencies and expanding range of threats to the national interests of Ukraine can be mitigated through persistent and goal-oriented work that should go toward development **of the national idea and search for the country's own model of social consolidation**. **The idea of a shared better future** is a fundamental bonding idea with high consolidation and integration potential. The destinies of every citizen and every family must become organic components of the Ukrainian society's destiny in its progressive development.

Establishment of **a nationwide identity suggests that new humanitarian policy should be built on the principles of civic 'national territorial' patriotism**, and not hypertrophied interests of certain ethnic, confessional and linguistic groups. In other words, the **nationwide identity of Ukrainian citizens must be formed first of all on the basis of common citizenship, establishment of civil freedoms, development of a consolidated democracy**, creating conditions for full and harmonious development of cultures of the national minorities and indigenous peoples, and development of an intercultural and social dialogue.

The course toward European integration demands implementation of ideas shared by EU nations on maintaining cultural identity and cultural diversity, tolerance and creativity. An important priority in this process is **the policy of support to three dimensions of the Ukrainian culture: culture of identity, culture of development, culture of leisure and pastime**. Programs of linguistic and cultural renaissance of Ukraine's ethnic communities should form a separate component of humanitarian policy, facilitating their socio-cultural integration in the Ukrainian political nation.

The key tasks of the humanitarian policy also include **transformation of socio-cultural diversity into a source of the country's development**. Implementation of **interregional exchange and partnership programs, for instance in education, culture, and youth policy**, should stimulate formation of a common humanitarian space and interregional integration of Ukraine. Harmonious combination of nationwide and regional interests will give equal opportunities for comprehensive harmonious development of a person regardless of one's place of residence, and take into account the features of each region, original historical, economic, social and other conditions in the context of the nationwide interests.

Humanitarian policy is a part of the national security policy. It not a secret that the current globalization model generates new opportunities as well as new challenges for nation-states. Most modern nations try to use the opportunities of globalization, yet they avoid "dilution" of national commonality markers, including nationwide identity, cultural and religious traditions, language and world perception models, mechanisms of education and socialization of citizens. Saturation of domestic humanitarian space with non-Ukrainian, as well as openly anti-Ukrainian products threatens the country's sovereignty, undermines the symbolic security of the Ukrainian people, and further complicates the development of the Ukrainian political nation.

The information, communication, and media components of the humanitarian policy become increasingly significant in the context of establishment of a consolidated society in Ukraine. **The basis of national security concepts of all the leading and most developed counties of the modern world is the soft power doctrine** which envisages achievement of respective internal and external political tasks first of all through introduction (or obstruction) of targeted information psychological influences upon communities and individuals. It is mass media and information computer technologies that are some of the main instruments of social engineering and fighting for power and influence, both at the local and global levels today.

The national media environment is developing dynamically and actively integrating into the global information exchange. Yet at the same time Ukraine remains a recipient country, characterized by a low presence in the international media space and high information dependence on foreign countries and media organizations. That is why the central task for the country in this sector is achieving **parity participation in the global information exchange based on protection and multiplication of its own spiritual and cultural values**. Global experience shows that the most effective protection model for its own information and symbolic space is **building up the volume and diversity of its own information resources** while creating conditions for their accessibility and intensive promotion both inside and outside the country. Implementation of this model of information sphere development is a compulsory prerequisite for building a strong and consolidated Ukrainian social environment, **maintaining information and psychological security of citizens and the state as a whole**.

Finally, in view of the unprecedentedly growing significance of human capital in the modern world, development of a single highly integrated education and research system should become a subject of constant attention of the society and a main priority of the national policy. **A united national education and research system** should be formed by developing all of its elements, such as life-long learning, introduction of open education elements, integration of education and research, and active introduction of research results. This will lead to the creation of a modern knowledge-based society in Ukraine and give our country a chance to take a worthy place in the global community.

Formation of a consolidated society and common humanitarian space in Ukraine requires adjustment of humanitarian policy priorities. For instance, **the new humanitarian policy should be built on the basis of the following priorities**:

- social institutions and infrastructure should be established to **develop common information, cultural and educational space of Ukraine**;
- development of a model of **nationwide, society-wide identity**, acceptable for the majority of Ukraine's population, that could naturally combine political (civil), and socio-cultural components, taking into account the socio-cultural, ethno-cultural and linguistic features of the regions;
- Ukraine's **national authenticity should be maintained** with a concurrent **modernization of cultural life, development and protection of national cultural industries** that face a severe pressure in the global competitive environment;
- **cultural life should become more democratic**, and *culture for all* principle should be implemented to satisfy cultural rights of all citizens comprehensively;
- traditional administration model in education should be replaced by a **new national education and research system**;
- **national mass media should obtain basic social functions**: satisfy information needs of all social groups of the society, provide feedback, establish the country's global information presence and promotion of national media product in the international markets;
- democratic and depoliticized standards should be introduced in ethnic and national relations.

1.2.2. Cultural policy and formation of cultural industry infrastructure

An important condition for establishment of the Ukrainian political nation is activation of its culture-generating potential in the process of state building. Implementation of a proper cultural policy is aimed at **preservation and development of national and cultural authenticity of the Ukrainian people on the basis of its cultural diversity**. At the same time, isolated cultural life of the regions and poor cultural communication between them complicates the formation of integral national and cultural space. Further development of cultural authenticity of the nation is a result of consolidation and interaction of all cultural groups of the Ukrainian society. This objective requires that adequate satisfaction of cultural rights should become a priority of state policy. Comprehensive by nature, these rights provide opportunity for every citizen to participate in the cultural life of society, use cultural benefits, have equal access to cultural heritage of their own people and humankind as a whole. These rights require implementation of the state program of national and cultural development of Ukraine aimed at:

- establishing regional and local centers of cultural and artistic life of the population with cultural institutions, development of amateur activities, crafts, and professional arts;
- improvement of cultural service quality, as well as adequate protection and free access of citizens to cultural values of national and global importance;

- revival and update of cultural heritage and local authenticity centers of the country's regions as the foundation for domestic and international cultural tourism development;
- implementation of interregional culture and arts exchange programs and concert tour performances, promotion of ethnic and cultural traditions of the regions, as well as traditional Ukrainian folk and modern arts abroad.

Achievement of these objectives will facilitate internal intercultural interaction and exchange, and, hence, social and cultural consolidation, strengthening of nationwide identity, preservation and development of national cultural authenticity and diversity of the Ukrainian nation.

An important mechanism in implementation of this policy is **decentralization of culture management by the government** giving a broader authority to local self-governments and local communities in matters of cultural development. Implementation of these reforms will ensure flexibility of state policies to meet real cultural needs of the local population and increase the level of cultural rights enforcement and democratization of public policy according to international tactics and experience.

A necessary **condition for an individual creative fulfillment** is increasing the social status of cultural sector employees, folk artists and craftsmen, as well as local artists through adequate remuneration, social protection, professional growth through international exchange and cooperation programs. Protection of legal interests of the creators and participants of cultural processes in Ukraine is also a policy priority to ensure favorable conditions for thriving culture and arts in the society.

At the same time, awareness of culture's social and economic potential should be the basic principle of its dynamic development. For instance, **invigoration of cultural activities facilitates the country's economic development**, and investments in culture have a positive social and economic effect on the well-being of society as a whole. Favorable conditions for national culture development in all spheres of social life should become a priority for the government policy reforms in this sector. This calls for a new model of partnership between the state, business, and civil society.

Development of the national culture market will facilitate off-budget support to the establishment of national culture. Incentives for entrepreneurship in the sector of culture should be provided through introduction of international experience in arts and culture management, establishment of relations between culture and business, as well as implementation of preferential taxation policy. Following new market conditions, highly qualified experts should be trained in culture management, for instance culture and arts business managers.

Formation of a civil nation as an integral cultural community is impossible without realization of the principle of **public responsibility for culture development**, i.e. public participation in the development and implementation of the nation's cultural policy. **Development of charity, introduction of international practices of social responsibility of business and 'percentage philanthropy'** will promote that policy, too.

Modern mechanisms of **off-budget culture and arts support**, activities of non-governmental organizations, artistic and professional associations of the sector should increase considerably the amount of fund in the sector, and democratize the process of culture development in all the areas of public life.

Implementation of policies to stimulate competitiveness of national culture industries meets the challenges of modern post-industrial world. With the influence of globalization, national culture industries have become an instrument of real protection and creation of national cultural authenticity, strengthening of national identity, and a condition for Ukraine's full participation in intercultural exchanges on the global arena. This task should be tackled by introducing a comprehensive package of government policy measures that should stipulate a legal definition of cultural industries in compliance with the international standards, as well as:

- provide for state support of national producers of cultural goods and services, and adequate presence of the national cultural product in the local market through adoption of the Law of Ukraine *On National Cultural Product*;
- create favorable environment for investments in the sector of culture industries, including infrastructure for distribution of cultural goods and services, as well as development of information, logistics and supply service centers for producers and creators of cultural products and works of art;

- expanding Ukraine's participation in cultural cooperation programs, professional training in culture; promotion of works of art and cultural products abroad.

Protectionism and promotion of **filmmaking and book publishing** should become an important area of the national cultural policy in view of their significance in the development of personal vision, values, and spirituality. State protectionism would mean support of:

- production of national films, for instance, patriotic and socially significant films (documentaries, educational films, etc.);
- publication of books in the national language, translated professional literature and fiction, as well as programs encouraging consumption of books;
- transparent and timely budget support for the sector's development and fair procedures of budget allocation;
- development of the sector's infrastructure, upgrade of its facilities and equipment;
- further implementation of tax benefit policy and establishment of favorable lending conditions for local filmmakers and book publishers.

Promotion of national culture and representation of the national cultural authenticity on the international arena is an inseparable component of the state cultural policy. Facilitation of international cooperation and exchanges, as well as access of national films and books to international markets gains particular importance.

Development of an effective model for the national cultural policy should be based on a broad understanding of the very concept of culture accepted in advanced European countries. The new model should be based on awareness of bi-dimensional nature of the sector, its national, spiritual and economic components, which will give a chance to reveal a culture-generating potential of the Ukrainian civil nation to the greatest possible extent.

1.2.3. Ensuring competitive advantages of national education and science

The second half of the 20th century and beginning of the 21st century have been distinguished by an unprecedented increase in the importance of education and science as factors ensuring comprehensive development of states as a whole and every member of society. The task of consolidation of the Ukrainian society, formation of a common humanitarian, intellectual, information and cultural space, as well as Ukraine's chances of taking a worthy place in the modern world depend on the status of education and science, and effectiveness of government policy in these areas.

Unfortunately, during the last decade Ukraine failed to avoid and stop negative trends in the sector of education. The country faces a serious reduction of both quantitative indicators and quality results in the work of local scientists. For instance, one of the integral indicators, the citation index of research publications (calculated on the basis of SCOPUS international research publications database), shows that Ukraine falls behind advanced countries and the countries with comparable indicators of population and degree of social and economic development. The general citation index was 178,075 for Ukraine in 1997–2008, while, for example, Russia scored 1,352,932, France 7,491,135, Poland 905,331, and the USA had 55,078,925. Publication quality index (or Hirsch index) for Ukraine is almost three times lower than the Polish one, four times lower than the Russian, and more than ten times lower than the indicator for the US scientists. The argument that many quality publications of Ukrainian researchers have not been translated into foreign languages and are therefore unknown to the international scientific community is not an excuse in any way. It is merely an example of another significant shortcoming of our science and research system, which should be corrected immediately and decisively.

An alarming indicator of the Ukrainian education is the fact that not a single Ukrainian university has been included into the list of top world 500 universities. In Ukraine, professional higher education is provided by 881 higher education institutions (HEI) of all accreditation levels and forms of property, among them 350 HEIs of the 3rd and 4th accreditation levels.¹ The number of HEIs is much lower in most European countries of similar size. For instance, there are 113 such educational institutions in

¹ State Statistics Committee [Electronic resource]. – Access mode: http://www.ukrstat.gov.ua/operativ/operativ2005/osv_rik/osv_u/vuz_u.html

Great Britain; 83 in Italy; 78 in Germany; 72 in Spain; 71 in France; and 40 in Poland. Besides that, most Ukrainian HEIs have separate structural units whose number currently exceeds one thousand, that is more than the number of educational institutions themselves. State-owned Higher education institutions are subordinated to 26 ministries and other executive agencies, ten of which only have one institution under their control. Such practice does not exist in any European country. Many educational institutions, while formally boasting of the higher education status, are actually unable to provide a full modern teaching level. Many institutions face the problem of an overly small number of students, only 6,600 people on average, while universities in most countries of the world enroll 30,000 students each on average.

General approaches of the government policy in education and science should change. As the role of education and science in the modern world keeps growing, **it is appropriate to draft and implement a comprehensive concept of education and science system development for this country** which would give the opportunity to use the advantages of intellectual potential for the benefit of the people of Ukraine and the Ukrainian state, to fix shortfalls and stop negative tendencies.

Improvement of knowledge assessment system. Education quality and accessibility at all levels should become a priority for development of national education today. An effective instrument of implementation of these priorities is an effective assessment system for knowledge and skills acquired during the learning process. There is no doubt that the system of external independent knowledge assessment may and should become one of such instruments. Just like any significant innovation, the system had its shortcomings in the first years of its introduction in Ukraine. However, it has demonstrated some obvious advantages, including significantly improved opportunities for free and equal access to continued education. This was proved by a very low percentage of appeals. The Appeals Commission of the Ukrainian Center for Education Quality Assessment received 5,618 applications to appeal the results of external assessment in 2009, which constitutes 0.5% of the total number of tests; the internationally acceptable appeals indicator is around 2%.

The weaknesses of external independent testing include a certain inclination toward assessment of mechanical memorization of particular data instead of in-depth knowledge and ability to use it effectively to solve practical problems. Another weakness is the insufficiently regulated mechanisms for test-based student enrolment procedure, as a result of which HEIs were overloaded with preferential enrolment candidates and multiple applications that candidates submitted to several dozens of higher education institutions at a time, etc. However, all these weaknesses are not insurmountable, and the Ukrainian Ministry of Science and Education has already made some steps to fix them this year.

The main task is filling independent testing with the content that can allow assessment of the achieved knowledge level and ability to operate this knowledge and personal competencies rather than the graduate's good memory. Competence-based approach should form the foundations for the curricula and assessment of learning results at all the levels of education.

Formation of national qualification system. Next development priority for the country's education system is formation of the national qualification system that should also be based on a competence approach, the main criteria of which were defined in the Dublin Descriptors in 2004. The development of a uniform national qualification system is one of the main requirements of the Bologna process, and Ukraine is one of its participants. However, it is necessary to clearly understand that fulfillment of this condition is not an objective in itself, but rather another powerful instrument to ensure quality and accessibility of education and increase its competitiveness.

Recognition of previous education and lifelong learning. The uniform qualification system will permit implementation of the principle of recognition of previous education, including informal efforts, which is extremely important for implementation of the lifelong learning concept. Recognition of previous training will allow to create a certain educational continuum: previously acquired com-

petencies will give an opportunity to continue training from the achieved level, regardless of place and form of previously received education. Inclusion of informal educational institutions and their curricula into the field of common qualifications will significantly boost the development of these institutions, increase quality requirements to their educational services, boost demand for them and raise their profile. This will promote a broader access of citizens to quality lifelong learning.

Distance learning development. An important factor ensuring quality and accessible education is the development of distance learning. The distance form of education has many advantages, and its role and share keep growing rapidly in the information age. Full-scope development of distance learning envisages a comprehensive support of three equally important aspects: institutions, contents, and material technical base. The first two factors are closely correlated with the common qualification system and recognition of previous education. It should also be mentioned that distance learning development in combination with lifelong learning will actually facilitate formation of a common humanitarian and socio-cultural space, and strengthen the existing social relations and form the new ones to unite and consolidate the Ukrainian society.

Introduction of open education elements. An important area to increase education competitiveness is the introduction of open education elements in Ukraine's educational system. This has become a defining trend in the higher education system of many countries over the last two decades, and the principles are often recognized as an educational standard. The basis of open education is open access to all educational materials, considerably broader opportunities for collective work within the framework of educational process, and IT-based academic process management.

Currently, the Ukrainian education system requires introduction of the following priority elements of open education:

- establishment of comprehensive e-libraries of full-text materials in the educational and research institutions;
- establishment of teamwork systems with teaching aids that can increase effectiveness of the learning process together with e-libraries and resolve the problem of shortage of textbooks, manuals and other teaching aids in the local HEIs;
- introduction of electronic management systems for teachers, students, and academic teams of all levels to increase transparency of the education system and streamline the management processes.

Consistent and comprehensive efforts of the society and state for implementation of the mentioned priorities are a guarantee and precondition for promoting competitive advantages of the national education, its quality and accessibility.

Integration of education and research. Education has no future without research, and research has no foundations without education. Taking a worthy place in the modern globalized world with its severe competition requires bridging the gap between education and research: building a common education and research system that would fully correspond to requirements of the time and possess a high level of integration and competitiveness at the global research and education market. Another important factor is that formation of a modern effective education and research system can resolve some social and demographic problems that can become more severe in the short and medium term.

The vital importance of integration between research and education is largely dictated by an urgent demand for upgrade of the country's economy and fast development of its innovative components. Without this development, Ukraine risks ending up in the list of poorly developed countries that can only supply cheap raw materials and workforce.

We have a significant potential for taking leading positions in the most promising sectors of science and technology, as well as educational services. **Our objective should be achievement of technology, R&D and education services export index comparable with the military and techni-**

cal cooperation revenues (USD 0.5 – 1 billion per year). Close and distant neighbors should not perceive Ukraine as a country of low-skilled laborers, suppliers of counterfeit products, or cybercriminals, but as a leading nation of teachers and scientists.

There is no doubt that specific methods of establishing integrated education and research system should be identified with direct participation of researchers and academia themselves. At the same time, experience of the last two decades convincingly shows that the state should play a key role in this process, with goal-oriented policy in education and research areas.

Perspectives and priorities of research universities in the innovation progress of Ukraine.

Establishment of **research universities** can be a key solution to bridge the gap between education and research, and thereby resolve the main problem of quality improvement in the local education and achievement of research results required for innovation progress of Ukraine. This is a new type of institutions for our country that can be set up on the basis of leading higher education institutions.

A research university gives an opportunity for harmonious combination of all the vertexes of “the knowledge triangle”: education, research, and innovations, thereby effectively increasing the share of research-intensive high-technology production in the economy, and considerably improving the quality of professional training and competitiveness in the global market.

Research universities face a three-fold task:

- to increase considerably the science component in both education and research;
- to step up interdisciplinary cooperation and openness, as well as mobility of teachers and students, which envisages respective increase of autonomy of these education and research institutions;
- to become centers of operational implementation of the achieved research results into production and education processes.

Importantly, the system of research universities in Ukraine will be built in parallel with a similar large-scale project in the European Union which plans to create such education and research centers to cover the gap between them and the US and Asian countries in technology, research, and education. The new EU education and research system has already produced its first positive results in each main target area. This fact, as well as the current dynamic development of the network of education and research institutions of the new type, encourages Ukraine to use its chance and find a proper place for Ukrainian research universities at this early stage in the pan-European network of research and innovation institutions.

Priorities of research universities in Ukraine’s innovation progress are:

- step up participation of university professors, postgraduates and students in the research work; encouraging them to do this work, among other things, through increased funding of research in the HEIs, with a respective reduction of academic workload for the professors participating in research;
- promote establishment of research teaching centers, joint departments and research laboratories, research institutions that would report both to the National and Sectoral Academies of Sciences, MES, and other ministries that control higher education institutions of the 3rd and 4th accreditation levels;
- increase academic and financial autonomy of the universities in their research projects and research result management. Research universities should be granted the right to establish subsidiaries for scientific research and design development upon request of public and private enterprises, and the right to involve external experts;
- develop economic incentives for university research and involvement of universities in research and development for public and private sectors in the country and abroad; provide a preferential status for local and foreign companies that invest in R&D in Ukraine;
- target state support to high technology projects dealing with funding research and design work performed by research university faculties;
- develop a national network of outsourcing companies operating in close cooperation with public companies and performing research and design upon request of local and foreign enterprises for priority sectors where Ukrainian science has the highest potential competitive advantages, for instance in materials science, aerospace technologies, biology, genetics, agriculture, etc.

As competition is intense in the international markets, procrastination with improvement of the situation in the country's education and science can further aggravate the situation. This is primarily related to unacceptable deceleration of the economy development and further reduction of Ukraine's competitiveness in the global markets, which inevitably has a negative impact on the wellbeing of citizens and their social self-perception.

1.2.4. The state policy in the national information space: trust, consolidation, and dialogue

The ambitious aim of making Ukraine one of the top-20 countries of the world calls for a clear and well-balanced strategy of the national information policy without which the country's social and economic modernization and sustainable development would be impossible.

Today, Ukraine's information sector is characterized by a high dependence on foreign countries and media organizations, poorly organized communication in the society-media-public authorities triangle, and predominance of politically biased and negative messages, etc.

The national media that should be the key instrument of community consolidation, unfortunately, do not perform any of their required functions in full.

In spite of positive dynamics with the freedom of speech in Ukraine against the backdrop of global indicators and intensive development of the country's information sector, more Ukrainians feel isolated from 'open, accessible, unbiased, full, and accurate' information about public life and activity of government authorities guaranteed to them by the legislation. Only in 2006-2008, the share of Ukrainians who believed that the situation with the freedom of speech had gotten worse grew from 13.4% to 44.3%. The public was even more critical about changes in transparency and openness of the government's activity: 31.9% believed in 2006 that the situation in that area was getting worse, and 73.1% citizens shared this opinion at the end of 2008. These indicators clearly indicate that the constitutional right to access to information regardless of political, market and other situations is not fully enforced in Ukraine nowadays.

Instead of unbiased coverage, mass media broadcast prejudiced and unbalanced information, they provide partisan description of events of the past, unfair comments on modern development of Ukraine, the state policy and national interests. **Mass media often catalyze violence, hatred and intolerance**, even though 23% citizens of the country refuse to watch any scenes of violence on TV channels nowadays.

One of the reasons of these phenomena is inadequate level of social responsibility of mass media and their incomplete comprehension of their own social function. Private media dependence on the market situation, as well as owners' interests, also plays its serious role.

One of the local manifestations of the general destructive tendency is a **dangerous 'regionalization' of national media environment**, when the population receives an absolutely inadequate picture of the role and interests of their 'small motherland' in the all-Ukrainian context from local and often foreign mass media, which in its turn cultivates separatist moods, interethnic and religious animosity, etc.

Inadequate understanding by the local journalist community of its function, and low self-organization and self-regulation have led to numerous violations of the basic rules of professional ethics. In mature economies, the role of the government in the media process is largely reduced to laying the groundwork where journalist communities have the opportunity for efficient self-regulation through developed specific mechanisms (ethical codes, self-censorship, political correctness principles, media criticism, etc.). This is how the balance between freedom of speech and social responsibility of mass media is maintained today. Besides internal regulation mechanisms, there are external mechanisms, for instance, the International list of professional ethical codes for journalists, where Ukraine is still not represented. The last version of the Professional Code of Ethics for Ukrainian Journalist was adopted in April 2002 at the 10th Congress of the National Journalist Union of Ukraine, and today it is absolutely abstract and outdated.

The fundamental and unresolved problem is the **deficit of high-quality competitive Ukrainian media product** which local broadcasting and production companies find less profitable to produce preferring to buy foreign formats or finished programs in most cases. Moreover, nowadays local mass media are mainly focused on distribution of light entertainment products, targeting unpretentious taste and mass audience. At the same time, production and broadcasting of popular science, cultural, historical, and children's programs is scanty. Ukrainian television series and documentaries are still at a fetal stage. Local filmmaking has a relatively low productivity. On the other hand, the **national system of global information collection and distribution** (reporter networks, representative offices of news agencies, etc.) is still **underdeveloped**. These factors condition two main problems of the Ukrainian mass media system: 1) high level of information dependence of local mass media on other countries and media organizations, which does not meet national interests and poses a direct threat to information security of the state and society; 2) lack of diversification of the national media environment, that is, inability of mass media to provide adequate satisfaction to information needs of all social groups regardless of their age, gender, status, education level, religious, ethnic and cultural preferences, and other features.

Public administration and regulation of the information sector is imperfect. It consists of an excessive number of specialized institutions whose activity is not coordinated properly. In real life this causes a series of chronic systemic problems. Here are only a few of them: a) regular violations of the legal procedures for appointment (National Expert Commission of Ukraine for Protection of Public Morality, National Commission for Communications Regulation); b) inconsistency of vested responsibilities and authority (Ministry of Justice), of the name and area of regulation (State Committee for Television and Radio Broadcasting); c) overlapping powers (State Administration for Communications of Ukraine and National Commission for Communications Regulation, National Expert Commission of Ukraine for Protection of Public Morality and the National Council for Television and Radio Broadcasting, National Council for Television and Radio Broadcasting and National Commission for Communications Regulation, National Council for Television and Radio Broadcasting and the central executive agency for consumer rights protection, etc.); d) failure to implement or poor fulfillment of the key tasks (National Council for Television and Radio Broadcasting, National Commission for Communications Regulation, State Committee for Television and Radio Broadcasting).

National information legislation also needs alignment and improvement. Accumulation of legal norms provided by laws and by-laws in this area has reached a critical mass: according to expert calculations, more than 260 laws of Ukraine regulate public information relations. Moreover, conceptual incongruence of legal provisions occurs in many cases, along with their dispersion through related spheres of legislation, and the terminology used in the legal acts is often not sufficiently accurate, is obsolete and/or does not have clear definition of its meaning. Ukrainian legislation in a number of areas is "lagging" behind the changes that appear in the process of development of information relations in Ukraine and all over the world. Hence, in many aspects they occur outside the legal framework and are not regulated by legal acts, which becomes an obstacle to their full and safe development. A considerable part of by-laws that should be drafted and approved according to current legislation is still missing.

Effectiveness of the state power directly depends on support of the society, which is impossible without population awareness. That is why communication between public authorities and the society should be transferred from the sphere of declarative policy into reality. Ukraine has all the necessary prerequisites for this: Article 10 of the Law of Ukraine *On Information* and Article 6 of the Law of Ukraine *On Procedures of Coverage of Public Authorities Activity* regulate creation of respective information services or systems within central government agencies or local self-governments. However, in practice separate units have no clear definition even at the level legal level and are unable to implement integral communication policies as their functions vary significantly at different institutions. That is why only institutional structuring and appropriate coordination can provide adequate and non-conflicting presentation of information about public authorities' activities to the population and ensure systematic feedback.

Information provided by public authorities by informing the population and passively acquired by the public should be complemented with active access rights. Both are based on the legal regime of information which defines its functioning conditions. Therefore, stipulation of the legal information framework builds the agenda of information relations and secures real information rights of the citizens. Objective features of the Ukrainian society should be taken into account while resolving

matters of the legal information regime: we need procedures and mechanisms where traditions suffice in the Western countries. That is why **it is important to go beyond regulating access to information which is perceived as a general procedure for acquisition, use, distribution and storage of information, and clearly define procedures, terms, cost of information acquisition, duties of public authorities to provide information, and this should be balanced off with establishment of responsibility for failure to perform these actions, itemized methods of information publication and submission of information requests** taking into account modern stage of IT development.

The task of improving Ukraine's international image requires systemic and long-term efforts. From the moment the country proclaimed its independence, concept-based and consistent image policies have not been implemented, and all this time **Ukraine has largely remained an un-protected object of numerous information aggressions from the outside**. Today foreign and most local experts unanimously say that the international image of Ukraine is "disastrous." Firstly, the number of news reports about Ukraine, small as it had been, decreased dramatically in the last two years; secondly, some 70% of them are negative; thirdly, 44% of reports about Ukraine are currently related to its political life, 19% are dedicated to business, and all other subjects take only 37% altogether.

One of the global tendencies of today is convergence of various media formats on the basis of Internet and fast development of the so-called new media: TV and radio channel webcasting, video services, social networks, blogs, public journalism portals, etc. They are becoming more popular than the traditional media (press, radio, television) in most countries, and media systems of most countries including Ukraine are following the same trend. On the other hand, we should remember that traditional television and radio broadcasting will remain an absolute leader in the structure of information consumption by Ukrainian citizens and respectively the main channel of informational psychological influence on the society both now and in the near future: traditional media are currently distributing more than 90% of television and more than 80% audio contents. That is why **the government regulation of the national media should focus on the audiovisual sector in short and mid-term periods**.

At the same time, according to the most likely development scenario, Ukraine should reach the relative level of technological IT parameters of advanced economies in the next 7-10 years. In terms of IT implementation, Ukraine is lagging behind most advanced countries but this gap is shrinking due to rather high modernization rates. This is first of all related to introduction of computer communications, broadband CWDM and DWDM internet access, and broadband mobile 3G UMTS internet. Telecommunications are developing in the optimal direction today: gradual introduction of innovative technologies, for instance the latest generation networks designed for further deeper convergence of information, multimedia, computer formats and services. This technological basis will create a new quality situation in the national information space demanding new paradigms and strategies for the government's sectoral policy.

However, in the near future the national information policy should comply with several strategic goals, and the most urgent of them are:

- **improvement of information legislation**. This envisages, firstly, drafting, approval and **implementation of the Information Code of Ukraine**, which is legally stipulated in the Foundations of Information Society Development in Ukraine for 2007-2015, approved by the Law of Ukraine dated January 9, 2007, No. 537-V. This would require:
 - 1) defining internal structure and hierarchy of Ukraine's information bills at the level of a legal doctrine regulating information relations in Ukraine within the framework of a clear hierarchy of laws and a comprehensive system of legal provisions and concepts;
 - 2) amending the laws of Ukraine on information relations, at least the **new version of the basic Law of Ukraine On Information** which is obsolete in many ways even with the latest amendments of 2005;
 - 3) incorporating sectoral legislation, that is, defining a respective set of legal acts and place it in the Compendium of Ukrainian Laws as a separate section titled *Information Legislation*.
- update and amend the national legal framework in the areas where **Ukrainian legislation is 'lagging behind' the changes** coming up in the process of information society development in Ukraine and in the world: stipulation of the legal information regime; formation and usage of na-

tional information resources; prevention of distribution of harmful and illegal information through global computer networks; support to local ICT industry; electronic information exchange, first of all electronic paperwork, assigning official status to electronic documents; regulating status of subjects of online information relations; streamlining electronic trade and payments; strengthening information security, protection of state information resources, and protection of personal data; establishment of a common system of IT standards, certification of computerization instruments; improvement of IT investment attractiveness, etc.

- **modernization of specialized government agencies in working with information.** A reasonable or a radical strategy can be applied here. If the former is used, the activities of current institutions will be streamlined through a clear delineation of regulation areas, delineation of duties and authorities of the institutions, identification of a coordination mechanism and authority that is responsible for this activity. If the latter strategy is applied, a specific agency will be set up to take care of all matters in the information sector. This approach is promising because development of digital technologies and internet is followed by convergence of various media formats on a common technological platform, and their owners are trying to diversify their resources and cover the broadest possible range of them. This experience is confirmed by international experience: Great Britain has merged five institutions into the Office of Communications, Federal Press and Information Office functions in Germany, and Ministry of Propaganda works in Israel;
- **effective state regulation of private media sector**, first of all in TV and radio broadcasting. This requires a systematic involvement of commercial broadcasters in taking up urgent tasks of the sector's development to direct their activity to establishment of national interests through legal restrictions and other legal levers, as well as quotas, benefits, state orders, etc.;
- **introduction of a dual system of audiovisual media**, i.e., establishment of a counterweight to private media in the form of public broadcasting (PB). However, the development of a fully functional PB sector is a long-term task objectively, and only a few countries in the world have managed to implement it with real effectiveness. Based on this fact, as well as mostly negative experience of the post-Soviet countries and countries of the Central and Eastern Europe in this matter, it would be appropriate to suggest another short-term strategy: **reform, upgrade, and expansion of the government TV and radio broadcasting as the first stage for formation of a national Public Broadcaster**;
- **establishment of the system of production and distribution of the national media product.** A very important step has been made in this direction recently – in February this year, Verkhovna Rada of Ukraine passed Law No. 1909-VI *On Amendments to the Law of Ukraine on Cinematography and Other Laws of Ukraine Regarding Support to National Film Production*. Despite a number of controversial provisions, the act broadly takes into account respective international experience and envisages budget support for production of the national product, tax benefits for film producers and investors, tax incentives for Ukrainian film dubbing, and state support to national producers of film and video carriers. However, it is important to emphasize that this is only the first step in developing the national filmmaking support system that lays the legislative foundations for it;
- **improvement of communication between public authorities and the society.** Development of a universal system of such communication is very timely. Its introduction as an instrument for the government's compulsory and active public informing about its activities and a clear legal information framework as a prerequisite for public access to it together can guarantee information openness of public authorities, which is a key indicator of the government's democratic nature. Besides the institutional dimension of the process, special attention should be paid to its contents that can be appropriately filled on the basis of quality management standard DSTU ISO 9001-2001. Following this standard, certain executive public authorities of Ukraine have developed and introduced methodologies for *Public Consultations*, *Public Awareness* and *Research of Consumer Expectations and Satisfaction*. Those methodologies have been appropriately tested and can be applied as algorithms, so they can be distributed throughout the public authorities system;
- **improvement and maintaining a positive international image of Ukraine (information and communication aspects).** Legislative changes are necessary, for instance it is appropriate to look into the possibility of **developing the National Image Policy** specified into a comprehensive set of measures at the instrumental level in the following fundamental areas:

- 1) maintaining information parity (establishment of permanent, comprehensive, multi-channel supply of required information about the country at all levels, from elites to general public, on one hand, and media report management, systemic monitoring and blockage/neutralization of anti-Ukrainian information campaigns, misinformation, inaccurate and harmful information, on the other hand); 2) establishment of a mutually beneficial **cooperation with Ukrainians living abroad concerning promotion of Ukraine** and the Ukrainians, lobbying their interests in other countries and internationally;
- 3) further expansion and **development of Ukrainian culture and information centers** within Ukraine's foreign diplomatic institutions, support to the national system of global information collection and distribution (reporter networks, representative offices of news agencies etc.);
- 4) formation of positive investment and tourist image.

Media support plays a key role in all those areas, and **the state must take the role of the general manager, coordinator, promoter, as well as the diplomatic, legal, and in some cases financial guarantor.**

1.2.5. Ensuring democratic standards in ethno-national relations

Establishment of democratic standards in ethno-national relations is an important and significant condition for formation and functioning of a social state in Ukraine in accordance with modern international and European human rights standards, consolidation of the Ukrainian people to form a modern society based on democratic principles that guarantee comprehensive development of every individual and ethnic communities.

Democratic standards for management of ethno-political processes **are aimed at meeting social, political and cultural needs of ethnic communities and specific individuals who belong to them, support establishment of inter-ethnic tolerance in the society, strengthen all-national unity, recognition of poly-ethnic and poly-cultural nature of the Ukrainian society as its social value that should be protected and preserved, and prevents forced assimilation and cultural deprivation of ethnic communities. The state ethnic policy should be based on the principles** of mandatory compliance with the generally recognized standards of human ethics, humanism, democracy, respect to language and cultures of ethnic communities, to dignity of ethnic communities and their members, combination of government support to the needs of ethnic communities and creating conditions for their free, independent, initiative-based, and organic development, promoting priorities of nationwide interests in domestic and foreign policy in combination with respect to Ukraine's ethnic groups, and ensure implementation of the European standards in inter-ethnic relations management.

The general ethno-political situation is characterized by shortcomings of current legislation regarding implementation of minority rights and controversial socio-cultural processes in the society. They include high assimilation rates of most national communities, incomplete repatriation of former ethnic deportees, primarily Crimean Tatars, existence of minorities lacking social adaptation (first of all, Roma), lack of involvement of national minorities and indigenous peoples into vital decision-making, lack of effective coordination in implementation of the ethnic policy by executive agencies and local governments.

Resolution of these problems in the process of formation and implementation of the state ethnic policy requires comprehensive measures, such as:

- **establishing compliance of domestic legal acts regulating national minority rights with modern European standards, and defining basic concepts of ethno-national policy.** Legislation should not be simply declarative regarding the rights of national minorities as this complicates their practical application, and legal mechanisms should be established to provide interaction between representative authorities of ethnic communities with public authorities and local governments;
- **streamlining legal support for repatriation and integration of previously deported Crimean Tatars, Greeks, Armenians, Bulgarians, Germans into Ukrainian society; optimization of the government's ethnic policy in the Autonomous Republic of Crimea in the**

area of inter-ethnic relations. The low effectiveness of government policy implementation makes a negative impact on the development of sociopolitical and ethnopolitical situation in the AR of Crimea in general. Efforts of the Ukrainian government to reinstate the rights and meet the needs of the Crimean Tatars and other people deported because of their nationality lose their effectiveness as a result of inadequate legislation on repatriation and reinstatement of the rights of ethnic deportees, as well as the shortage of budget funding that does not cover real needs of the state programs for ex-deportee settlement and integration, and unresolved problems of socio-cultural development of indigenous peoples and national minorities in the region. One of the priorities in the intercultural dialogue policy in the region should be resolution of comprehensive problems concerning **return, settlement and integration of the Crimean Tatars and other people deported on the basis of their nationality to the Ukrainian society, particularly through an active dialogue with the Council of Representatives of the Crimean Tatars;**

- **overcoming high rates of language and culture assimilation of the vast majority of national communities toward the Russian language and culture. Ethno-cultural features of the regions must be taken into account in the implementation of the state education policy.** This concerns, in particular, organization of education for representatives of ethnic minorities. At the moment this process faces a number of problems, including lack of quality curricula, appropriately developed materials and methodologies for teaching in minority languages, lack of systemic professional and advanced training courses for teachers working at schools with tuition in minority languages. Independent external testing has revealed a number of problems related to the linguistic aspects of testing which require a proper professional assessment with further adjustment of the assessment procedures. An optimal model of the teaching process should be developed to facilitate further education and work opportunities for minority school graduates, and students should be given a chance to take a full course of the Ukrainian language along with their native languages;
- **more active involvement of national minority representatives in the decision-making process related to the issues vital for them through** implementation of the Lund recommendations regarding introduction of the following mechanisms of ethnic minority participation in social and political life: establishing special **forms of minority participation**, for example, official or unofficial agreements about granting their representatives a certain number of seats in parliament, cabinet, courts, and other high-ranking public authorities; constituency formation in the proportional election systems according to the interests of minorities; reduction of the parliamentary election threshold for representatives of national minorities, and so on. Ignoring the Lund recommendations can seriously undermine the trust of international community in the sincerity of Ukraine's intentions to uphold respective standards declared at the supranational level;
- **improvement of the system of professional training for the officials who are responsible for implementation of the state ethno-national policy and** whose competence includes establishment of effective coordination between the central authorities and local self-governments²;
- **introduction of a comprehensive policy for combating xenophobia, racism, and discrimination on national and ethnic grounds** through improvement of local legislation in prevention of discrimination (direct and concealed) on ethnic or racial grounds, and resolution of **the problem of migrant integration** and interethnic relations. Cases of intolerance occur in the Ukrainian society, especially toward the new migration groups. The problem has been recognized at the national level. So far, Ukraine does not have a clear-cut component of the local migration policy, and there is no agreed model of integration and adaptation of the new communities to the Ukrai-

² There are no structural units responsible for national minority rights locally at the level of regional state administrations. According to the data of the State Committee of Ukraine for Nationalities and Religion, at the moment only the Autonomous Republic of Crimea **has a republican Committee for Interethnic Relations and Deportees**. Two regions, Odesa and Ivano-Frankivsk, and the city of Kyiv have functioning Departments for Nationalities, ten regions (Vinnytsia, Donetsk, Transcarpathia, Mykolaiv, Poltava, Kyiv, Lviv, Cherkasy, Zhytomyr, and Chernivtsi) have separate **offices for nationalities within different departments** (Department of Domestic Policy, Public Relations Department, Information Policy Department). **Minority Sectors** operate in six regions (Rivne, Kharkiv, Sumy, Kherson, Khmelnytskyi, and Volyn) and the city of Sevastopol. Dnipropetrovsk, Luhansk, Kirovohrad, Ternopil, Chernihiv, and Zaporizhia regional state administrations have each only one official employee dealing with nationality matters.

nian society. The key role in migrant integration through involvement in political and social life and employment belongs to the local and regional authorities. Integration of the newest migration communities has to take place in several areas: social sphere, economy, culture, and legal relations.

Introduction of effective consolidation mechanisms for all ethnic components of the Ukrainian society is necessary for successful development of Ukraine as a European state. In the context of the European integration, Ukraine is trying to build its ethnic policy concept upon democratic European standards and values, so it can adequately and effectively react to ethno-political changes caused by globalization processes.

Part 2.

ECONOMIC AND SOCIAL POLICY REFORMS: ON THE WAY TO MODERNIZATION

Chapter 1.

ESTABLISHING AN EFFECTIVE ECONOMIC SYSTEM IN THE POST-CRISIS WORLD

2.1.1. A “new wave” of reforms in the post-crisis economy

1. The devastating impact of the global financial crisis on the Ukrainian economy has revealed its critical systemic imbalances which require early adjustment to navigate complex challenges of today’s world and to ensure a sustainable social and economic development of Ukraine.

With the economic policy that was focused on gaining voter favour in the context of repeated political cycles and disregard of development goals and structural modernization, Ukraine has provided little prospects for structural and institutional reforms during the “strategic pause” of 2005-2009. It has led to lost opportunities in forming capacity reserves to back up the national economy, which instead increased its sensitivity to destructive external effects. The global crisis therefore incited the “explosion” of internal disproportions in the local economy.

The economic destabilization in Ukraine was caused by such systemic disproportions:

- **excessive consumption against the background of insufficient savings**, resulting in a need to cover the excess of domestic demand by advancing growth of import, thus steadily worsening the balance of trade and aggravating the risks of currency destabilization;
- **institutionally underdeveloped financial system and limited mechanisms to refinance banks**, which prompted commercial banks to actively tap the international debt markets, while consumer lending was primarily focused on purchase of imported goods and mortgages;
- **unfavorable environment for long term investment** which boosted investment attractiveness of sectors with high liquidity and fast turnover, favouring early investment in sectors that only redistribute GDP, unlike investment in production, and thus aggravating the instability risks of the financial system and inflation potential;
- **concentration of Ukraine’s export revenues on a handful of commodity groups** in a situation of the national economy’s growing openness, which entailed high dependence of the country’s economic performance and financial results on the external market situation;
- **underdeveloped system of strategic planning and imperfect mechanisms of risk assessment** at both government and corporate levels, which significantly contributed to fast and major economic vulnerability to external and internal shocks.

The financial crisis of 2008-2009 demonstrated low efficiency of the existing model of economic development which heavily relied on the predominance of export orientation and extensive use of relatively cheap basic resources in the undercapitalized economy. As economic growth was mainly financed through external resources, the low efficiency of structural, investment and innovation policies provided for a natural lack of internal “shock absorbers” of negative economic trends, as well as suppressed the country’s modernization potential.

The crisis also exposed the low effectiveness of existing instruments applied by the government to regulate economic activities, primarily in monetary and foreign exchange policies. This gave rise to a wider use of administrative tools in public policy which only intensified macroeconomic imbal-

ances. The need for “manual” channelling of financial resources amplified the increasing pressure on the state budget, resulting in excessive superiority of fiscal agenda over the country’s economic priorities.

2. **Those reasons reveal a need to adjust the outdated “catching-up” model of output projections and competitive advantages, making it more compatible with today’s society expectations**, such as an effective social impact of the economic development, establishing a true basis for economic sovereignty and identity, ensuring economic base for a civil society of the European model based on stable “middle class” with respective living conditions and quality of life.

The increasing aggravation of the finance deficit problem as an inevitable consequence of the financial and economic crisis encourages governments to search for new mechanisms to capitalize natural, human, scientific and technological potential which will establish the basis for a new model of competition in the post-crisis world. The post-crisis global economic development will be based on a gradually increasing rationalization of resource potential, with major involvement of innovative solutions in industrial, technological, economic and administrative areas.

3. **The crisis has prompted modernizing processes in Ukraine, encouraging both citizens and politicians to realize the need for streamlining the existing model of economic development through modernization and innovation.** The current situation favours transition from populist decisions in the country’s economic policy to long term goals of sustainable development. With traditional growth factors no longer in full capacity, a “new wave” of systematic economic reforms is needed to achieve a better use of the country’s resource potential, to increase its capitalization, and implement new effective tools of economic regulation.

To prevent further losses incurred as a result of the economic crisis and encourage modernization, it is necessary to sustain concurrently medium and long term goals of the country’s economic policy:

- maintain high economic *growth rates at 6-7% per year* to ensure a rapid offset of losses incurred by the economic crisis and resume economic advancement to reach European levels in the quality of life, using an enhanced model of the national economy competitiveness;
- implement policies to ensure a gradual improvement of *living standards* as a reasonable prerequisite for economic reforms and to enhance the quality of human capital through increased productivity and modernization of capital assets;
- maintain *macroeconomic stability* to boost public expectations and investment climate in the country, achieving a more predictable exchange rate curve and improved inflation performance through enhanced government regulation of these areas.

4. **The “new wave” of economic reforms is expected to facilitate economic growth through efficient use of market instruments to achieve macroeconomic balance and to serve as a powerful incentive towards constructive economic growth, with full-fledged private property and effective competitive markets.** This will create a basis for a sustainable growth of every citizen’s welfare in a competitive national economy that is broadly integrated into the global economic context.

This strategic goal should be implemented by creating an efficient and productive market economy that will be adaptive and sensitive to challenges of world markets, capable to defend national economic interests, and provide foundation for an innovative, socially oriented model of economic development.

The strategy for the “new wave” of economic reforms should be based on the following principles:

- ensuring the welfare of every citizen as a priority in public policy and a factor influencing economic development;
- ensuring the development of local businesses and integral circulation of capital;
- focusing on the best use of competitive advantages of the national economy;
- prioritizing internal resources and factors influencing the development;
- applying effective and internationally recognised instruments to implement social and economic policies;
- demonopolizing the state authority and ensuring its accountability through a public dialogue.

5. Achieving high rates of economic growth and further integration of Ukraine with Europe require a quality modernization of relations between the state, business and civil society toward minimizing conflicts and ensuring partnership. This should lay foundation for more effective social and economic reforms, advanced European standards of conducting business, democratization and de-monopolization of the government.

The implementation of the “new wave” of reforms suggests transition to a better quality of government regulation of the economy. The discriminatory form of liberalism with “manual” governance style, widely practiced in Ukraine, should be replaced by a new model based on maximising the potential of market players, both producers and consumers of goods and services. Given the qualified capacity of both business and society to advance own interests, they may foster economic development in Ukraine by creating a more conducive environment for timely response to the government’s regulatory initiatives, thus overseeing its public policy. In fact, “network economy” will be gradually established in Ukraine, a promising economic model for the 21st century.

The mission of government economic policy suggests the focus on effective market players, with emphasis on top-priority sectors in the country’s modernizing process, engaging innovative solutions, social involvement, with a view to build a consolidated society.

The consistent implementation of the reforms should establish a tangibly positive linkage between improved economic efficiency and enhanced living standards in Ukraine. The existing social model of public “paternalism” (father-treat-a-child attitude) provides rather limited prospects for quality developments in this area. To ensure better living standards, Ukraine is advised to apply principles of solidarity and social responsibility, which suggest:

- *government accountability* to ensure execution of citizen’s basic social rights and targeted aid for low income households, to create conditions to implement principles of social justice through facilitating access to public resources, and to enhance social responsibility of business;
- *business responsibility* to establish conditions for development and efficient application of human resources, ensure ample performance-based wages, exercise environmentally friendly activities, with due respect for the values of sustainable development;
- *responsibility of Ukraine’s citizens* to ensure implementation of their human resources in a legitimate economic activity, and involvement of high income residents in social support of lower income citizens.

6. High-level corruption should be combated and shadow economy curtailed to achieve improved efficiency of social and economic policies applied by the government, to foster a successful competitive national economy, and facilitate social and economic development. These factors entail major unproductive losses of public resources, thus dramatically decreasing citizens’ willingness to accept economic policy measures aimed at providing public financial support in all and every aspect.

“Privatizing” public entities through corruptive mechanisms is perceived as a disquieting factor both for the economy and society. Involving executive authorities and government enforcement agencies of local levels to advance interests of “business clans” adversely affects the country’s image, provokes confrontation between authorities, especially at the local level, and business entities, which eventually diminishes the effectiveness of public policies.

A substantial decline of the shadow economy will increase the efficiency of the government economic policy, foster public trust and partnership between citizens, business and government, will attract more financial resources to the economy, and reduce ineffective expenditures of the government, business and society. This process therefore should be based on conversion, i.e. non-aggressive involvement of shadow capital and funds into the legitimate economy through improved practices of legalizing shadow capital of non-criminal nature, providing opportunities for legitimate investment activity through legal amnesty to prevent capital outflow from Ukraine. During the amnesty period, the government should primarily focus on eliminating key reasons for the shadow economy: narrow markets, low availability of financial resources, excessive tax burden, overregulated economy, criminalization, and so on.

Given the close linkage between corruption and the shadow economy, it is necessary to overcome corruptive practices in the country. Strategic anti-corruption measures suggest consistent democratization in all areas of public life, enhanced government responsiveness, transparency and clarity

of government decisions for citizens, improved public awareness and citizens' involvement in the development of Ukraine, exercising stringent surveillance of anti-corruption policies and decisions at all levels of the government.

7. **The “new wave” of reforms aims to achieve the most favorable combination of market principles and strong impact of proper economic policies by developing new tools for the government to exercise its long-established role in this area.** This combination will ensure strong prospects for effective preservation of the country's identity through government policies and effective management of national resources, as well as resistance against unfavorable economic circumstances in the increasingly globalized economy.

The government should place a stronger emphasis on social issues in the economic development by improving the linkage between competitive economy, social justice and higher income citizens, establishing transparent rules for all market players, and consequently achieving major economic effect on all businesses and households. In this way it will foster shared interests of residents and businesses in line with national goals and will minimize clashes among different parties engaged in economic and political activities.

The “new wave” of reforms should be therefore focused on developing consistent mechanisms to ensure synergy effect and restoring the integrity of the national economy:

- *develop investment activities* and encourage accumulation of financial, technological and administrative resources for innovative purposes;
- establish *proper budget and tax incentives* for development, increase the efficiency of budget expenditures, especially for investment spending;
- ensure *monetary stability* by applying levers that enable channeling excessive funds into output; establish a flexible and effective infrastructure for raising and allocating debt capital, long term lending, especially encouraging corporate financing by commercial banks;
- ensure that further privatization occurs in enhanced governance of corporate and public sectors, and *establish solid national capital reserve* to achieve macroeconomic stability and competitiveness;
- focus social policies on *enhancing human capital*, promoting lifelong skills development, improving systems of education, culture, and health care;
- increase revenues and wages through *higher efficiency*;
- introduce insurance-based financing into social policies while increasing the efficiency of direct budget spending for social needs.

2.1.2. The durability of macroeconomic stability and stabilization of expectations

1. **In transition from depression to growth, the growing dynamics of the economy increases the importance of preserving macroeconomic stability to ensure stable and positive business expectations.**

To maintain macro financial stability in the post-crisis period, the government should apply gradual and consistent changes in public policy, such as anti-crisis measures and incentive packages. The transition strategy should be very clear in terms of deadlines and action plans to ensure that business, on the one hand, could introduce suggestions, and, on the other hand, was given ample time to adjust to new market rules. This approach will facilitate a united effort of the government and self-regulated market. The market should increase the economy's flexibility and responsiveness to internal and external factors, while the public policy should establish priorities for economic development and ensure the economy's integrity in its transition period.

2. **The government policy should place a high emphasis on the country's economic growth and apply incentive measures to support the real sector, foster its modernization and upgrade, therefore it requires a properly functioning financial system, and broadens goals and tasks of government finance policies far beyond the financial sector.** With a decrease in economic uncertainty, it would make sense to switch from one-year benchmark planning and monetary policies to three-year forecasting. To eliminate a natural conflict emerging from the need to preserve both internal (price sensitive) and external (currency exchange) stability, Ukraine should use an effective local currency rate as a benchmark for its central bank's monetary policy.

The foreign currency policy should be aimed at strengthening the resistance of local currency against adverse effects, as well as mitigating significant currency fluctuations in an identified range. The parameters of the currency range should be closely related to anti-inflating measures and support local manufactures' competitiveness both in domestic and international markets.

The preservation of effective currency rates will mitigate the impact of negative global market trends on national producers and establish conditions for sustainable long term economic growth and improved balance of payments.

With development of market mechanisms in the long term perspective, direct government interventions into currency rates will be gradually declining, while practices to hedge currency risks will be widely applied. This will require development of market insurance tools and eventually improved public control over currency transactions and forex business positions.

When implementing anti-inflationary policies in Ukraine, the government or the central bank should imply non-monetary sources of inflation. Reducing inflation suggests increased supply of goods and services through competitive market, development of market infrastructure, improved allocation and effective use of financial resources through combined monetary, fiscal, competitive, and structural policies.

3. Strengthening financial system to boost economic development requires effective monetary tools and reformed banking regulation. A developed financial market requires better mechanisms of liquidity management by increasing correlation between commercial banks' lending terms with the central bank's interest rate, and improving relevant tools, such as restrictive standards, reserves requirements, refinancing transactions and fundraising. These measures will enable the central bank to conduct a flexible monetary policy, manage banking liquidity, and ensure payment stability. To reduce the inflationary effect of monetization, refinancing should become the main emission source, with restricted purchase of foreign currency and exercise of administrative measures to curb the inflow of speculative capital. Foreign currency restrictions should be consistent with the central bank's need for increase in its gold and currency reserves.

When applying targeting policies to maintain local currency on stable exchange levels, increase in money supply will become a key interim indicator of the monetary policy. As the central bank makes decisions on the size of the money supply, it should be committed to create a more favorable monetary environment to ensure the country's further economic growth. The central bank should be guided by internal and external macroeconomic trends, the situation in real and financial sectors, banking performance, changes in trade balance and labor market, and expectations of market players.

Macroeconomic and financial stability is strongly dependent on timely identification and response to consistent risks that emerge inside and outside the financial system. This requires a capacity to conduct forward-looking investigation, economic forecasting, scenario analysis, and to improve economic models. It is important to strike a balance between the increase in requirements towards financial institutions and preservation of their ability to diversify sources of income.

To raise confidence in today's time of economic uncertainty, it is necessary to develop shock resistant solutions, both from inside and outside, to safeguard the financial system. Those solutions include foreign exchange restrictions aimed at curbing the inflow of speculative capital and outflow of shadow capital, built-in payment stabilizers, and insurance tools. The development of the insurance sector, enhanced by stimulating macroeconomic, monetary and structural policies, will largely contribute to financial stability.

4. Consistent reforms of public finances is a primary prerequisite for macroeconomic and financial stability of the country. Problems and discrepancies in the sector of public finances have grown into key risks for post-crisis economic recovery of Ukraine. In new market economies, such as Ukraine, fiscal measures to stimulate business activity have proved their better efficiency compared to monetary or regulatory policies.

However, in recent years the fiscal policy was largely used to serve the political agenda, which reversed its effect on the economic growth.

As a result of the recent budget policy which was heavily focused on gaining voter favor, public spending for social needs has rapidly increased. This policy has led to a significant gap between budget revenues and government obligations.

Poorly-balanced public finance significantly undermines expectations of companies and consumers, especially inflationary expectations that can emerge from probable monetization of the budget deficit, as well as prospects of tight fiscal policies to increase the pressure on the corporate sectors, which reduces investors' interest in Ukraine's economy.

2.1.3. Development of post-crisis competitiveness

1. Incentives for entrepreneurship are the cornerstone of the “new wave” of economic reforms as a major prerequisite for the country's economic development.

Sluggish, inconsistent and incomplete reforms in Ukraine have preserved conditions for unfavourable regulatory climate and the spread of corruption, which is a prevailing obstacle to entrepreneurial growth and increase in living standards for common people.

Therefore, the major challenge of the new reforms is to finalise required institutional changes which will significantly improve the entrepreneurial climate in the country, stimulate economic growth and encourage investment, inbound and outbound. The regulatory climate should become more attractive for economic activities. The reforms will address key priorities to ensure real protection of property rights, compliance with terms of competition, deregulation of licensing procedures, new business registration and business cessation, as well as proper surveillance over the implementation of the reforms. The efficient government will establish and guarantee single rules for all market participants and implement effective anti-monopoly policies which will strengthen investment attractiveness of the country and foster its sustainable economic growth.

The key areas ensuring entrepreneurial growth and property rights are as follows:

- full compliance of the authorities with the national legislation, especially anti-corruption laws and regulations;
- improving legal framework in corporate governance and financial transactions, reinforcing property rights, and developing public-private partnerships;
- reinforcing public regulation of natural monopolies, increasing their transparency and public exposure, improving legal mechanisms of control and surveillance to ensure fair competition;
- abolishing preferences and benefits to specific sectors and business entities, aligning terms of competition locally and regionally;
- improving performance of public (municipal) enterprises on the basis of competition, market motivation and the use of public (corporate) rights;
- advancing liberalization in all areas of the economic activity according to EU criteria, excluding large scale government intervention into the economic life.

2. **Given a slowed-down activities of foreign markets, strengthening and developing the domestic market becomes a major efficient way to stimulate local economic growth.** The size, structure and efficiency of the domestic market are crucial factors for creating a competitive national economy and ensuring sustainable economic growth, whilst improved efficiency of market institutions becomes a critical condition for the increase in aggregate demand, pushing the economy forward. Measures to strengthen and develop the domestic market should be enhanced by policies supporting national producers.

In the domestic market development, a high priority should be placed on reducing imbalances between demand and supply by:

- stimulating output of import-substituting and high-value-added goods;
- improving the competitive capacity of domestic products;
- developing a competitive market;
- enhancing institutional, organizational, and economic components to ensure proper functioning of the domestic market.

To ensure that measures stimulating the internal demand have a full-scale and rapid effect on local producers, it is necessary to:

- provide legal support and information for domestic manufacturers to prop their sales by improving the notification system of quality and price offers among real and prospective buyers and sellers, enlarging access to this information and ensuring its trustworthiness whenever possible;
- ensure priority development of direct supplies of agricultural and food products to consumers, especially by promoting food fairs and agricultural markets, improving their performance and enlarging access of producers to these events, restoring a system of vegetable and fruit trades, etc;
- increase the number of municipal trade institutions to ensure even access of citizens to trade outlets and create favorable conditions for the recovery of consumer cooperation among local communities.

Proper competitive environment requires targeted measures to overcome monopoly in many market segments, eliminating manifestations of unfair competition. It requires a wide range of competition policy measures, especially those that prevent anticompetitive practices of domestic and foreign investors in the Ukrainian market, and improve methods and criteria for identifying unfair competition given the realities of the Ukrainian economy. The measures are to establish proper institutional and legal environment for the entrepreneurial growth, improve antimonopoly legislation and enhance the performance of the Antimonopoly Committee of Ukraine, strengthening the accountability of business entities for breaches of antitrust laws.

Strengthening direct government impact on the domestic market development calls for a reform of the public procurement system. Public policies in this area should focus on reinforcing competitive market relations, facilitating access to participation in contests and tenders, and eliminating corruption. Expanding government investment programs in infrastructure will potentially bring about a significant increase in the demand for locally produced goods, primarily in such sectors as machine building, steel and mining, etc.

The increase in domestic market effectiveness requires relevant government measures for improving *price regulation* policy, with a steadily declining share of regulated prices and transition to market tools of government price regulation, such as trade interventions.

3. The recovery of Ukraine's economy to a new level of competitiveness requires enlarged financial opportunities for business entities acting in the improved financial system. Development of the financial system that can respond to the economy's needs, focusing on accumulation and use of internal resources for the benefit of national interests, suggests growth in all key sectors, such as banking, insurance, stock market, and investment.

There are factors hampering the high performance of the financial system and thus the economic recovery of Ukraine, namely an unfavourable institutional environment, especially relating to legal and information support of financial activities, feeble mechanisms for protection of investor rights, a deficit of "long" money, excessive debt burden, and underperformed role of citizens in channelling their savings into the monetary system. These issues can be resolved by improving institutional, organizational and economic conditions for proper functioning of the financial system, namely:

- building infrastructure and mechanisms for capital flow among financial market segments, which will increase responsiveness of business entities to financial policy measures, and enhance relationship between real and financial sectors of the economy;
- using the potential of financial system to strengthen the domestic resource base by bringing long money into the system, such as funds of the cumulative pension system, population's savings outside the banking system, public funds, excess investment into foreign assets of financial and non-financial corporations, as well as capitalizing non-financial assets through modernization of mortgage legislation, registration of rights for natural, industrial, and intellectual resources and know-how, and their involvement in the financial turnover, etc.

Quality upgrade of the financial system requires a stronger emphasis on the use of internal resources, suggesting changes in the behavioural patterns of household consumption to stimulate investment and savings rates. This objective can be reached by establishing the processes of financial intermediation and collective investment which will facilitate conversion of savings into investment and thus raise efficiency of financial resources allocation.

The pension system is a key element to collective investment and accumulation of population's savings. Facilitating the pension reform requires development of pension insurance support along with introducing cumulative pension system, establishing conditions for voluntary savings through non-public pension funds and insurance companies, increasing population's awareness about non-public pension systems.

A new quality of the financial system is strongly linked with the growing role of the national currency in monetary circulation and the decreasing role of dollar in the economy, increased availability of financial services, enhanced transparency and harmonization of financial reporting, strengthening prudent regulation through a high level of the Central Bank's independence as a key state agency responsible for ensuring financial stability.

4. A steady banking system with a multi-level structure and developed allocation mechanisms of financial resources between loan and deposit institutions of different size and structure should play a pivotal role in Ukraine's financial system. The transformation of the banking system into a powerful tool for stimulating economic growth necessitates a more targeted financial support of commercial banks by the Central Bank, reinforced protection of creditors and borrowers, encouraging banks to effectively use own and borrowed resources, improving economic incentives and eliminating administrative barriers through differentiated regulation in the banking sector, focusing efforts on extension, diversification and increase in the stability of the resource base.

A developed financial market is the cornerstone of the competitive financial system which suggests coordination and harmonization of the growth in the banking sector and stock markets in such areas: conducting a large scale reform of the existing system of financial regulation and control (primarily, to prevent systemic crises), improving support of financial institutions by the Central Bank, especially in providing compensatory financing and liquidity. Integrated development strategies of the banking sector and stock market will create a synergy effect, establishing a strong capital market in Ukraine.

5. Globalization of financial flows and the need to establish a new basis for economic sovereignty imply increased competition between countries for limited private capital in recent decades. Competition for capital encourages governments to establish more conducive conditions for its inflow compared to the competitor nations, primarily by creating an effective and stimulating tax system.

Therefore, the government's strategy for creating a competitive fiscal climate should be based on such priorities:

- reducing transactional costs emerging from relations between business entities and fiscal authorities by simplifying the tax system;
- lessening the tax pressure on profit which is a main source for reinvesting;
- reviewing tax liabilities on payroll between employers and employees towards increasing the input of the latter;
- streamlining and efficient allocation of tax benefits, including adjusted practices, based on the experience, both negative and positive, of creating areas with special tax treatment;
- creating conditions for reinvesting capital into the domestic economy and introducing soft barriers for its outflow from Ukraine, while lowering tax rate on the profit to be reinvested into upgrade of capital assets and maintaining a high tax rate on the profit to be used for other purposes;
- facilitating inflow of long term (strategic) foreign investment in Ukraine, such as investment in long term debt securities, acquisition of controlling shares in the authorized capital of companies, investment through technology transfer or introduction of fixed assets into the authorized capital of domestic enterprises, etc.

6. The "new wave" of reforms is to provide crucial strengthening of small and medium enterprises which will play an important role in the strategy for social and economic integration, by each sector and region, to ensure larger direct involvement of population in the country's economic activities.

Notwithstanding the fact that Ukraine has already achieved some quantitative indicators of small and medium business development, likewise in developed countries, the issue remains high on the government's agenda and has potential for improvement. It should become a top objective for public

authorities at all levels and local governments. Increased small and medium business in Ukraine will distribute the impact of economic growth throughout population, pushing forward the innovation development process, creating new jobs for people eligible to work, and thus establishing a stable middle class society. The development of small and medium enterprises does not exclude big business development but rather complements and enhances it, in the context of Ukraine's overall economic growth.

The combination of small, medium and big business will be a part of the government policy focusing on accelerating regulatory reform which should provide a better business environment by:

- improving administration of taxes, duties and mandatory payments, as well as ensuring predictability of government actions associated with establishing and administering other taxes and related payments;
- raising the efficiency of mechanisms to ensure market rights and freedoms of investors, and reinforcement of investor protection;
- reducing administrative barriers for business registration and licensing;
- strengthening property rights and eliminating scope for raider attacks;
- reducing levels of corruption and the size of shadow economy.

Sustainable development of market economy institutions is designated to restrict discriminating policy and facilitate equal rights for domestic and foreign enterprises.

Creating a favourable business environment will foster further dialogue between the government and business entities, increased flexibility of public governance, improved decision-making efficiency and predictability, and obligatory compliance with the regulatory policy.

The regulatory reform should imply such major changes:

- incorporating European principles of public administration in entrepreneurial activity into local legislation pursuant to the treaties signed by Ukraine;
- transferring some public regulatory functions to self-governing organizations of small and medium businesses;
- adjusting the simplified tax system, small business accounting and reporting to realities and challenges of the modern economy, strengthening targeted use of the simplified tax system and preventing its unjustified use for tax minimization purposes;
- facilitating access of small and medium business entities to information and public procurement procedures;
- introducing government policies to boost export capacity of small enterprises;
- adequate representation of domestic small and medium businesses in bilateral and multilateral international trade negotiations.

7. Task-oriented and effective investment processes will enable increased competitiveness of Ukraine's post-crisis economy. The rapid pre-crisis growth of Ukraine's economy was conditioned by dynamic investment processes, when high-liquidity and fast-turnover sectors ranked as best investment choices, which obviously entailed very limited changes in the economy's structure, if any at all. The structure and trends of investment processes limit the progress of innovation-based economy. Rapidly increasing investment in sectors that redistribute the GDP instead of investing into production (industry and agricultural sector) reinforces risks associated with instability of the financial system and inflation prospects, further shifting investment demand to imported goods.

The post-crisis national economy requires concentration of investment resources in the strategically important areas, which requires transition to a task-targeted investment policy fostering investment processes in Ukraine, proper allocation of investment, and channelling a larger part of profit for investment purposes. Today's global economy faces a high level of competition in the world investment markets, encouraging countries to implement sound and efficient investment incentives.

During the revision of the Tax Code, specific tax and depreciation investment incentives should be identified and differentiated depending on the type and size on investment, size of enterprises, regions of investment, designation (founding a new business or upgrading the existing one), investment objectives (channelling a big part of investment for purchase of new equipment, machines, and advanced technologies), as well as the technological and innovative level of production and a number of newly created jobs.

Government investment incentives should be based on a clear identification of economically viable investment priorities.

When granting tax incentives, it will be crucially important that enterprises comply with the targeted use of investment, e.g. for upgrade of industrial production and infrastructure, development of promising sectors of the economy that can give a strong impetus to economic growth, improving the economy's structure, and establishing new competitive products and technologies.

As factors that repress economic growth persist in some regions of Ukraine, this calls for a review of application of *special legal treatment of economic activities* in the areas where the government provides business entities with economic incentives such as benefits, preferences and guarantees. The efficiency of the special treatment practices strongly depends on the regulatory role of public institutions, encouraging improved public surveillance and continuous performance assessment of special treatment areas to prevent their improper use for unfair competition between business entities. The experience of introducing some forms of special economic treatment demonstrates the need for improved regulation, increased efficiency and targeted use, namely:

- developing conceptual basis for special treatment areas in Ukraine, assessing and monitoring their performance, and introducing sanctions for improper use of special treatment benefits;
- specifying a list of tax and administrative benefits for business entities and terms of provision thereof;
- identifying locations requiring special legal treatment of economic activities;
- bringing the practice of special legal treatment in compliance with WTO requirements.

The need for intensifying the processes of accumulating financial resources and their further channelling into economic growth, as well as concentration of budget expenditures for development purposes and improved efficient of its use, require *institutionalization of investment lending* through establishment and development of specialised investment and lending institutions, such as:

- establishing a full-fledged National Bank for Reconstruction and Development (NBRD) which will act as a central agency authorized to provide government support to the economy's sectors, manage government investment, involve mutual investment funds with participation of foreign and local financial and loan institutions, supply cheaper investment and innovation loans, and facilitate government-secured innovation loans;
- applying regulatory and tax incentives to encourage commercial banks to provide long term investment loans, introducing a concept of "investment bank" that will enjoy lessened reserve requirements and discount rates of the Central Bank, and refinancing loans from the NBRD;
- creating a favorable environment for the development of the financial market represented by investment funds, pension funds, and insurance companies, placing major emphasis on diversified accumulation of public funds and their further channeling into investment.

Consolidated public effort to raise capital for modernization should also encourage *individual investment activity* with the following major steps:

- encourage the development and expansion of mutual investment institutions by improving pertinent legal framework, implementing a relevant communication campaign to get information across to prospective investors, replicating effective investment practices, and conducting reliability assessment of investment companies;
- issue government and municipal securities, with a fixed yield rate, for public sale to raise capital for funding development projects;
- introduce a progressive taxation model for individuals, tax loan on individual income invested into securities of mutual investment funds and government bonds.

However, a comprehensive encouragement of private investment will not affect by any means the importance of *extensive government capital investment*. Its full capacity can be achieved only when budget spending items will be split into current consumption and development expenditures, the latter being the NBRD competence. It will strengthen the autonomy of public investment on the current fiscal balance measures, ensure sustainable government funding of investment programs on the basis of the Public Investment Program, support a part of development expenditures with loans, and ensure control over the objectives and use of government-secured loans. It is expedient to concentrate budget investment in construction and reconstruction projects related to transport, communication, municipal and social infrastructure.

8. The growing challenges of global competition encourage Ukraine to embark on the innovation path to reach the outmost economic development, advance high technologies, business organization, qualified personnel, apply latest accomplishments in R&D, and implement modern innovation techniques to ensure the best use of resources and the country's high competitive capacity. The contemporary model of innovative development is based on people's performance results, which creates a powerful incentive for social developments such as increase in payroll, improved working and living standards.

Innovative development has not yet become a cornerstone for economic growth in Ukraine. Before the crisis, the country's economy demonstrated fairly high growth rates, but the recovery was based neither on technological nor innovation upgrades. In view of this, the governments did not establish economic incentives to encourage modernization of production facilities or any kind of innovation projects. Poorly incorporated innovative elements into the existing model of Ukraine's economic growth resulted in increased sensitivity of industrial growth to global demand fluctuations for crude and low-tech goods.

The policy of technological modernization, when consistently conducted, can turn technological and administrative innovations into key prerequisites to Ukraine's quantitative and qualitative economic growth, therefore providing a solid foundation for gradually increasing competitive capacity of the country. Its application should imply a combined financial effort of the government and private business, introduction of innovative models to ensure competitive market behavior, rigorous adoption of domestic and foreign technological innovations, investments, know-how and skills.

Innovation incentives should primarily rely on investment stimulus and ensure innovative focus of investment in such areas:

- *tax area*: overhaul of benefits in top priority sectors to favor a functional approach, namely: tax incentives for innovative business revenues; tax incentives for investment into innovative projects; tax exemption for research & development institutions funded by the state budget; tax exemption for companies funding research & development institutions; tax exemption for companies introducing innovative technologies into socially important sectors, such as medical care, education, law enforcement, emergency services, etc; tax and customs incentives for specific foreign trade operations, such as trade and support of high-tech industrial products, rendering scientific and technology-oriented services, importing equipment that has no domestic rivals of the same kind based on the criteria of technology and efficiency;
- *budget spending*: the NBRD should place a primary emphasis on targeted crediting of innovation-oriented investment projects, with property guarantees to ensure its proper use. To ensure the increased demand for innovation in Ukraine, it is essential to include innovative goods and services into a mandatory list of public social programs, government and municipal, energy efficiency policies, development of municipal information infrastructure, etc;
- *areas with special economic incentives*: to develop this practice, adding new formats such as technological parks, R&D centers, industrial parks, high-tech areas;
- *lending*: innovation loans should be encouraged by introducing public insurance of innovation loans, especially issued to small business; establishing government program to subsidize interest rates of commercial banks, if a loan was raised by industrial enterprises to finance innovation projects and technological upgrades; ensuring state guarantees and privileged regulatory requirements to those commercial banks that provide lending to finance high priority innovation projects.

To ensure the outmost spill-over effect of the incentives listed, *innovation support should be diversified* by channels and areas: cooperation between small and medium businesses with big corporations, fostering a closer liaison between R&D and production, venture business, industrial and financial integration, as well as internationally; providing appropriate legal conditions to attract more institutional investors, such as non-government pension funds, venture funds, insurance companies, etc; creating innovation associations; establishing a state system for innovation risks insurance. Improved legal and organization foundation for entrepreneurial growth is equally important in this context, especially creating innovative formats with long term outlook, such as high-tech and industrial parks, R&D centers, technopoli, business incubators, etc.

The *development of innovation infrastructure*, i.e. financial intuitions, legal companies, consulting agencies, marketing and communication firms, and innovation-based education centers will increase the economic susceptibility to proposed incentives. This process should be supported by providing free access to the government's information services, full or partial deduction of the

company's expenses from taxable income, if expenses imply using the services of the institutions mentioned above; providing government purchase of information goods and current consulting, etc.

9. To achieve proper economic competitiveness in a post crisis world, Ukraine needs to overcome its low energy efficiency which requires reforming the energy sector and the entire system of energy consumption.

The status of the economy's energy efficiency, as stipulated by the Comprehensive Program on Energy Efficiency in Ukraine and the State Target Economic Program on Energy Efficiency for 2010 -2015, is deemed unsatisfactory. For the last five years, GDP energy intensity has decreased by around 18%, and is still 2.1 – 3.7 times higher compared to developed countries.

To achieve a major increase in the economy's energy efficiency, Ukraine's strategy should be based on such key priorities:

- establishing government surveillance over energy efficiency, promoting the importance of energy saving and proper use of relevant technologies;
- introducing a comprehensive system of accounting and control to oversee fuel and energy consumption, while installing meters at every household;
- creating conditions to attract investment into energy saving projects, including instruments highlighted in the Kyoto Protocol and subsequent agreements to regulate carbon emissions;
- encouraging energy consumers to use energy saving technologies through preferential loans and lessened taxation on energy saving projects, facilitating the procedure for new business registrations in energy efficiency.
- establishing market rules for a pricing policy on fuel and energy, transparency on energy markets and effective regulation of natural monopolies operating in these sectors.

Given the timeline required to achieve the necessary level of energy efficiency and the relevant costs associated with investment, reducing the country's energy dependence should entail rationalization of relations with energy suppliers and European consumers of the Ukrainian transit, based on mutual economic benefits, transparency, consistency and stability, notwithstanding changes in political leadership of the country, and implying a long term perspective.

It is reasonable to continue the process of integration in energy field within the framework of decisions made jointly with EU, such as the Treaty on Energy Cooperation, the "Eastern Partnership" Program, etc.

It is equally important to increase the output of own energy resources, including the shelf of the Black Sea, which requires a solution of the maritime border issue between Ukraine and Russia, to simplify licensing procedures and eliminate shady schemes allowing access to exploration and output of own energy; to expand a range of domestically produced energy by including mine methane, peat, shale gas, etc, to the energy balance to increase the use of non-traditional and renewable energy, which implies the use of advanced technologies, especially foreign ones.

To reach further decline in Ukraine's energy dependence, it is worth exploring other areas such as creating a full-fledged nuclear fuel cycle with increased output of natural uranium and zirconium; supplies of liquefied gas including the construction of appropriate infrastructure; the Euro-Asian Oil Transportation Corridor project. It is important to encourage Ukrainian companies to get involved in exploring energy resources abroad and building energy infrastructure outside the country's borders.

10. Fast implementation of economic reforms in the agricultural sector is of crucial importance for integrating social and economic environment in Ukraine and increasing significantly the economy's capitalization. The importance of agriculture as a structural priority is based on the vast resource potential, both natural and human, social meaningfulness for local population, and long term positive outlook, given steadily increasing demand for agricultural products worldwide. However, the agricultural sector may be regarded as a potentially receptive market lacking satisfactory consumer and investment goods.

Therefore, the state policy to reform and support the development of agricultural sector in Ukraine should be focused on such areas:

- building a modern system of government aid to agricultural producers in accordance with WTO;
- developing a domestic market of agricultural products, including infrastructure facilities for supplies, initial processing and storage of agricultural primary products, and expanding the network of retail outlets;
- establishing the infrastructure of appropriate maintenance and logistics facilities, i.e. providing agricultural equipment and machinery under short term lease agreements, applying agro chemistry, etc.;
- ensuring consistent and gradual introduction of regulatory requirements within Ukraine's international obligations to minimize the discouraging effect of agricultural production, such as introduction of European technical regulations for agricultural products;
- actively applying non-tariff protection for the domestic market, in accordance with WTO rules, such as veterinary and sanitary regulations, strengthening certification procedures and safety of products, etc.;
- providing targeted support to environment-friendly agricultural production that is based on "green" technologies and can be potentially seen as a major competitive advantage of Ukraine on foreign agro markets;
- establishing an institutional and legal environment to introduce the land market, providing maximum protection of rights for agricultural manufacturers.

Reforming the agricultural sector in Ukraine on the basis of intensified use of its resource potential, both natural and human, is a significant trigger for further society's development, as it can reduce property inequality and inter-regional disproportions.

2.1.4. Ukraine on the post-crisis map of global economy

1. A considerable economic damage that Ukraine has suffered as a result of the world financial and economic crisis has revealed the need for modifying Ukraine's participation in global specialization to strengthen its resistance against world market fluctuations and improve use of its national resources.

The Ukrainian export structure has a big share of raw materials production creating low added value, as well as dominance of material intensive equipment in exporting machine building products, which depletes the domestic resource basis and makes the country's economy more exposed to external shocks. The share of goods with added value in total exports of products remained unidentified, with only 17% standing for machine building goods and facilities production.

Given the changes in the global specialization as a result of the world financial crisis, aggravating energy, financial and food crises, increased protectionism in foreign trade and reduced investment, there is a need to focus a set of policy measures under the *National Export Strategy* that will identify strategic priorities to position Ukraine's enterprises in foreign markets.

The objectives of the Strategy is to enhance Ukraine's role in the global specialization, strengthening protection of exporters from discriminatory actions of other world economic players, increasing competitiveness of the domestic export and protecting the internal market from unfair actions of foreign competitors.

Key components of the Strategy should include:

- conducting negotiations and concluding bilateral treaties to simplify customs procedures with other key trade partners of Ukraine, adopting international documents to coordinate single principles of risk insurance, exercising currency and export control;
- introducing export loan mechanisms by establishing special regulatory requirements, identifying the central authorized bank for export loans, introducing partial compensation of interest rates on export credits provided to certain groups of companies (defined separately for each region based on its specialization);
- establishing the State Export Support Fund to facilitate access to foreign markets for small and medium enterprises;
- simplifying the process of VAT-refunds to exporters and increasing its transparency, introducing mechanisms for prompt detection of unfair requests for reimbursement;

- introducing mechanisms for monitoring foreign policies of key trade partners to avoid adverse effects of possible weakening of trade relations;
- harmonizing issues relating to reciprocal recognition of technical standards between Ukraine and the EU, and recognition by EU authorities of national standardization and certification;
- creating a program to expand international cooperation of Ukraine in key areas of science and technology development and ensure participation of domestic business entities in the international R&D cooperation;
- providing consistent support of domestic exporters on foreign trade markets through economic diplomacy, high level political support to maintain strategically important export contacts, fast response to trade conflicts to promote their prompt resolution;
- modernizing and expanding logistics, transport and information infrastructure to intensify business exchange and trade contracts.

The Export Strategy of Ukraine should be focused on active advancement into promising markets with a high value added product turnover and with a medium and long term perspective of rapid growth in the post crisis world, given the changes in global specializations.

Notwithstanding the fact that the local currency devaluation has caused a sharp decrease in import volumes, a parallel currency devaluation of Ukraine's trade partners and high inflationary growth in Ukraine along with the economic revival can lead to the recovery of import expansion. It preserves the validity of the effective *regulation of imports* to Ukraine. Instead of explicit protectionism, a more subtle policy should be implemented to restrict access of less critical imported goods to the domestic market. The "new wave" of reforms is to ensure better current and new mechanisms to protect the domestic market given the international experience, such as:

- introducing modern technological (automated) and legal instruments of customs control and assessment of imported goods value to control the relevance of the latter;
- ensuring prompt control over the pricing policy for early identification and prevention of pricing and other types of dumping by importers and applying antidumping and compensatory charges, in accordance with WTO rules, to protect domestic producers;
- applying non-tariff regulation techniques in line with WTO rules, such as quality, safety and compliance control of imported goods, compliance with sanitary and veterinary standards, etc.;
- applying, whenever necessary, temporary measures limiting imports to stabilize the balance of payments, in line with WTO rules;
- increasing the regulatory, protective and trade efficiency of non-tariff restrictions on imports of goods that is harmful to human health and environment;
- preventing smuggling and imports of counterfeit goods;
- introducing strict restrictions on imports of second-hand goods.

However, it is necessary to introduce effective measures to stimulate the domestic market arrivals of foreign investment goods, necessary for the development of technological capabilities of domestic enterprises, particularly by establishing a simplified customs regime, reduction of import duties for machinery products that are not produced in Ukraine.

2. Improving Ukraine's participation in the world cash flows should be an integral part of Ukraine's economic policy to ensure its sovereignty. The process of financial globalization augments the risks related to Ukraine's own financial system, such as loss of its independence and maintaining the periphery status in the global financial markets. Strong dependence of the domestic financial sector restricts capitalization possibilities of the added value produced in Ukraine. It narrows the resource base for real sector development, leads to exclusion of domestic financial corporations from promising sectors of the financial market, and causes a higher instability of social and economic development of the country and a more sensitive exposure to external factors.

The "new wave" of reforms should ensure the development of a new model of relations with foreign investors, striking the balance between national and foreign interests to maximize the inflow of financial resources, given valid mechanisms to serve those obligations. To ensure a more equal entry of Ukraine into the global financial system, a system of currency regulation should be established to prevent the transfer of strategically important assets to non-residents and channel foreign investment into strategically important sectors of the domestic economy.

Foreign banking capital is expected to increase its presence in the relevant Ukrainian market, and the government should increase control over the inflow of foreign capital into the domestic banking

sector. The reasonable strategy of state governance in this process is to integrate most banks with foreign capital into the Ukrainian economy, orienting them toward meeting priorities of the domestic social and economic policy. The main objective for regulating such banks is to streamline their use of resources while shifting the focus from administrative levers that limit expansion of foreign capital to encouraging a stronger competitiveness of the Ukrainian banks.

- 3. During Ukraine's adaptation to the post-crisis stage of economic globalization, the country's potential for membership in international institutions opens up new opportunities.** At the beginning of the 21st century Ukraine was a participant and member of over 70 international organizations and forums, therefore creating institutionally structured geo-economic surroundings that can be used to promote national interests.

The major potential benefits of the situation are as follows:

- Ukraine can take advantage of the opportunities to protect national economic interests in the global markets provided by the WTO, such as: developing techniques to overcome discriminatory restrictions against Ukrainian companies in foreign markets, providing training to specialists who will become qualified enough to use legal WTO regulations and the existing WTO dispute resolution system to defend interests of Ukraine in foreign markets, defining the strategy of Ukraine's behavior as a WTO member during further world trade development. It is important to develop cooperation with other RAM³ members to exchange experience in protecting interests of domestic producers and abolishing trade restrictions, including technical barriers to trade, as well as for coordinating positions during new rounds of multilateral negotiations;
- Ukraine can use new institutional opportunities arising with creation of NBRD for cooperation with international organization engaged in financing structural projects, especially with the World Bank and European Bank for Reconstruction and Development;
- Ukraine should improve the dialogue with the Organization for Economic Co-operation and Development (OECD) for enhanced engagement and progress toward obtaining full membership in this organization, building cooperation with the OECD to exchange experience in tax system development, collection, exchange and analysis of statistical data, increasing confidence in domestic financial and banking system, etc.;
- Ukraine will intensify negotiations on the free trade area between Ukraine and the European Union with account of the need to preserve asymmetrical conditions for reciprocal opening of the markets;
- Ukraine can initiate the establishment at the CIS-level of a multilateral agency to settle trade disputes on tariff and non-tariff trade restrictions among the Commonwealth members;
- Ukraine should use its membership in the Food and Agriculture Organization (FAO) to increase the country's engagement in reducing the problem of famine, which will help expand export markets for Ukrainian agricultural products;
- Ukraine should use extensively international cooperation between NGOs to promote the interests of domestic enterprises in global markets, distribute information on trade and investment proposals, improve the image of domestic companies and gain international certifications, promoting the partner image of Ukraine, and so on.

- 4. Adjusting to the challenges of post-crisis global economy will encourage pragmatic approaches to determining Ukraine's policy priorities in the regional economic integration.**

The *Customs Union* has been established between Belarus, Kazakhstan and the Russian Federation. These countries accounted for 43.7% of Ukraine's imports and 36.5% of its exports in 2009, therefore a top priority should be placed on concluding agreements on preferential and close access of Ukrainian goods to the Customs Union markets, regulating energy costs and conditions of supply and transit, facilitating joint ventures, joint investment and joint production projects with partners from these countries.

To maximize profits for domestic producers, it is necessary to finalize the Association Agreement with the *European Union*, particularly its economic component, i.e. the Deep and Comprehensive Agreement on Free Trade Area (FTA+). Moving toward a Free Trade Area with the EU, Ukraine should focus on long term stabilization of its trade relations on an equal footing, and gradually liberalize access of European companies to the domestic market. Ukraine should seek the EU's

³ Recently Acceded Members – a group of countries that recently joined the WTO

consent to apply asymmetrical trade policy towards Ukraine whereby Ukraine will have a transition period for increasing its competitiveness in the EU markets.

The cooperation with EU includes the following important areas:

- introduce mechanisms to resist antidumping and other restrictive measures against Ukrainian producers in the EU market;
- establish information exchange for mutual trade and investment offers between companies in Ukraine and the EU;
- expand joint investment projects with participation of the European capital in strategic sectors of the Ukrainian economy;
- expand cooperation between Ukraine and the EU in science and technology;
- develop cooperation to ensure energy security of the EU.

Under the Eastern Partnership Initiative of the European Union, Ukraine should use the achievements of its integration into the European Economic Area to acquire a sub-regional leadership role, promoting establishment of cooperative ties with EU member nations and CIS countries, ensuring diversification of energy supplies from the Caspian region through the Euro-Asian oil corridor of the Odessa-Brody-Plotsk-Gdansk and (potentially) through the White Stream gas pipeline, and coordinating multilateral projects on modernization of Ukraine's the gas transportation system.

The Mediterranean Union should encourage more efficient activities of the *Black Sea Economic Cooperation Organization* in cooperation with the EU and Mediterranean countries, improving preparation work to launch the Black Sea free trade area, ensure a coordinated economic policy in several areas, coordinated development which meets the common interests of the BSEC countries and GUAM (primarily in the sectors of energy, transport, tourism and recreation business, food industry), creation of transport corridors and harmonization of transit rules for cargo transportation from BSEC member states, preservation of marine ecological systems, etc.

Creation of new centers for global economic growth places high on Ukraine's foreign strategy agenda the task to elaborate and develop mutually beneficial cooperation with dynamic countries that are reforming their economies. Establishing close trade, investment and cooperative ties with China, India, Brazil, South Korea, the Russian Federation, and Kazakhstan, will facilitate Ukraine's integration into new models of economic development, based on sustainable upgrade of economic systems through technological and social modernization.

Potential trade and economic cooperation with China and ASEAN countries looks very prospective within China-ASEAN free trade area with the world's largest population (1.9 billion people). Receptive Asian markets consume a significant part of Ukrainian raw materials, making them a priority trade partner for Ukraine. Meanwhile, the increasing interest of certain Asian countries in Ukraine's technological capacities, i.e. aircraft, space, military, technology, energy, and other sectors reveals new opportunities for Ukraine to significantly improve its exports to the Asian region and encourage the inflow of credit and investment from major Asian countries to support the Ukrainian economy.

To ensure a more effective promotion of domestic products to foreign markets and to establish effective investment cooperation, Ukraine needs to consider joining leading international economic groups as an observer, such as the Shanghai Cooperation Organization, the Mediterranean Union, the Organization of Islamic Conference, the Association of Southeast Asian Nations (ASEAN) and others.

Chapter 2.

HUMANIZATION OF ECONOMIC DEVELOPMENT

2.2.1. Major systemic deformations and 'institutional traps' of the social policy

1. Structural deformations of the national economy and its inadequate participation in the international labor distribution directly affect humanitarian indicators of economic development, including living standards and social protection in Ukraine.

In the period of perpetual election campaigns, social policy has been implemented as a series of fragmentary, predominantly political decisions that were not aimed at overcoming systemic disproportions but were mostly made to get electoral advantages or at least rapid responses to direct threats in the social sphere. During the period of economic reforms, the country not only failed to form the necessary effective social and economic institutions, but established and developed institutions that became 'institutional traps' for social policies. Such systemic shortcomings include:

- **lack of a nationwide model for social policy implementation.** Liberal development concept inherent to economy as a whole is spreading to the social sphere, but the degree of social sphere reform that indicates readiness for the liberal model is rather low. In practical terms, there is an inadmissible gap between declarations stipulated in the legislation, including the Constitution of Ukraine, and the social reality in the country. Lack of clear social policy strategies causes money squandering and consistent underfunding of social institutions. Modern social and economic policy is based on the paradigm according to which social costs are seen as burden for the budget and economy. As a result of this approach, proper resolution of social problems is postponed until the times of economic improvement and revival;
- **deep social stratification and high income polarization.** With growing population income, society gets polarized in terms of rapidly growing top revenues and salaries, and their concentration continues growing. Ukraine has become an inequality champion in the post-Soviet area: Gini index has reached the mark of 0.33. Excessive social and economic inequality is the main obstacle for social and economic growth on the basis of broad human capital regeneration, considerably dampening positive economic development effect for the social sphere, and playing significant disintegrating role for the society;
- **ineffective state transfer polity.** Currently established social support system is based on general social transfers, commodity and service subsidies, as well as benefits for certain population categories, and in principle is unable to redistribute resources in favor of the neediest. Social needs of the most vulnerable population groups are not satisfied, which reproduces high poverty among the population. Transition to market principles of economy organization has not led to radical reforms of the social protection system with considerable improvement in target distribution of assistance provided to citizens. With shrinking social programs in education, healthcare, cultural and social policy, a constantly increasing number of special benefits and assistance types replaces funding that should be assigned for the development of the sectors that ensure human capital formation. In general, the Ukrainian state is committed to provide 156 types of social benefits, guarantees and compensations to 230 population categories; in all, 19.5 million people, or more than 40% of the Ukrainian population are entitled to benefits;
- **failure of pension system reform in Ukraine.** Ukraine is the only post-Soviet country that failed to form and implement a pension reform. The resulting excessive pension burden on employers, considerable shadow employment and shadow salaries for a large number part of able-bodied population slow down improvements in pay-as-you-go system and complicates Pension Fund budgeting. PAYG pension system is based on a purely fiscal resource distribution, it is not linked to the country's economic development level, and pensions grow faster than salaries. As a result, the Pension Fund experiences chronic deficits that have to be covered by the National Budget and dictate postponement of a pension reform;

- **non-institutionalized labor market and lack of its structural upgrade.** In the period of Ukraine's economy transformation, considerable institutional restrictions of the national labor market have brought forward non-standard adjustment mechanisms like flexible working hours or salaried, instead of employment restructuring. Those peculiar adjustment mechanisms in labor relations gave enterprises a chance to keep excessive employees due to maintaining low salaries and considerable salary arrears, thereby basically ignoring requirements of the law and contracts. Deinstitutionalized labor market causes considerable social expenditures, first of all in the form of active migration processes, deterioration of labor force value and qualification, etc. Problems caused by unstructured labor market deepen the economic crisis, restrict structural changes, prevent stabilization, and decapitalize human potential of Ukraine;
- **loss of knowledge and labor values.** High quantitative indicators of education levels do not have proper effect on economy development and living standards of the population. Inconsistency of education reforms in combination with reduction of its funding have caused formalization of state guarantees of universally accessible and free of charge secondary and vocational education. Education becomes less accessible, the education gap is deepening between urban and rural residents, and graduates of schools with full and low enrollment. Deterioration is observed in the principle of education and upbringing unity, interaction between educational system and production; for instance, enrollments to costly natural sciences and technical specializations are reduced excessively, and transition to sustainable development and innovation economic system models is impossible without them. Development of secondary and higher education and vocational training lags behind the needs of modern labor market and high requirements of its competitive environment. Hence, the gap between the education and income levels discourages young people from getting real quality education required by the society, and it 'dilutes' the will to obtain the life value of professional qualification. Despite lasting periods of economic growth, labor does not guarantee worthy living standards for the citizens in Ukraine. The number of people getting salaries below subsistence level constitutes 25.5% of the working people, thus more than 3 million Ukrainian employees cannot provide for minimal consumption level;
- **significant deterioration of demographic characteristics of the population.** According to the data of the European Regional WHO Bureau, average life expectancy in Ukraine constitutes 68.2 years. This is more than 10 years lower than the average European indicator. Demographic structure maintains a strong population aging tendency. Disruption of natural population reproduction processes has reduced the number of people below working age and increased the numbers of people of working age and above, which increased the general demographic load on working age population. Death rates were much higher than birth rates in the latest 19 years. Migration losses of people of productive age and high professional qualification add to depopulation;
- **deterioration of living conditions and health of citizens** as a result of improper nutrition, spreading bad habits, increasing stress factors, and lower quality of medical services. Deterioration of the health of population reduces qualitative and quantitative features of Ukraine's human potential, increasing the burden on medical and social assistance and reducing well-being of citizens.

2. **Global financial and economic crisis has demonstrated the need for a comprehensive review of public mechanisms to regulate social processes.** The crisis has shown that the society has exhausted its integration opportunities based on liberal development model, and drew additional attention to the need of efficient capitalization of national human potential. Human development indicators have dramatically decreased. According to the UN Report *Overcoming Barriers: Human Mobility and Development*, Ukraine ranked 85th out of 185 in the human development index in 2009, going 7 positions down compared with 2005.

The economic crisis forced a number of enterprises to close down, salary delays became more frequent, real incomes went down, and considerable structural disproportions appeared in the use of labor potential. Youth unemployment is high: according to the data of the State Employment Service, only 32% graduates of higher education institution got jobs in 2009.

Further on, it would be reasonable to expect more layoffs in the process of financial readjustment and structural upgrade of enterprises, which will transform part of cyclic (temporary) unemployment into structural (chronic) form with both sectoral and regional dimensions. This will require special actions in ensuring interregional and intersectoral labor force mobility.

Strict budget expenditure saving was introduced during the crisis and is likely to prevail in the near future, forcing concentration of budget expenditures in the social sphere, first of all in salaries to employees. Material base of the social sector of economy, including education, healthcare, culture institutions, etc., is deteriorating because only minimal infrastructure development investments have been made for a long time, causing risks of further deterioration and forcing the country to look for alternative and joint sources of social investments.

2.2.2. Principles, directions and tools of the new social policy

1. **Global challenges of the post-crisis world force us to look for new ways of overcoming systemic contradictions in the social sphere, which should be achieved through deep social policy reforms to modernize its paradigm, priorities, and implementation mechanisms.** Modernization scenario must be based on the *subsidiary state* ideology which provides social guarantees where the society is unable to ensure them by itself. The new policy envisages solution of social sphere problems under existing budget and general resource restrictions with active facilitation of Ukraine's entry into the list of competitive social states with high living standards. Equal opportunities should be ensured for individual's personal development in the society, as well as basic social guarantees and vital interests of all population strata. Growing investments in human capital, development of social infrastructure that facilitates formation of professional, social, intellectual potential in the society can turn social policy into a leading factor increasing competitiveness of national economy.

The change of approach looks possible due to the general accomplished transition to market economy and formation of a system of basic legal norms and market institutions that ensure development of market relations and form part of the system of shared social responsibility.

Certain reduction of populist moods and a general understanding that changes are unavoidable, however painful, have prepared the society for reforms. Meanwhile, the vector of reforms, albeit unpopular, must aim at a consistent integral involvement of the nation's human capital to economic processes and establishment of clear connection between economic and social development results. Social sphere as a factor of human potential capitalization must be used as a leading power lifting Ukraine from the financial and economic crisis.

The answer to strategic challenges must be given in the form of a social strategy, or doctrine, providing adequate assessment to modern social state, defining preconditions and possibilities for social changes, establishing principle approaches to long-term social development, its tasks and main directions, implementation means, as well as expected results.

The government social policies must be coordinated with economic, financial, scientific, technological and other components of the state policy. A social strategy must lay the foundations for the social agreement about the main guidelines and priorities of social development, which ensure:

- revival and promotion of social and cultural values of the society;
- dramatic increase of the role of knowledge and labor in the development of the society;
- strengthening citizens' responsibility for their own well-being and the country's development;
- formation of social structure in the society following European examples;
- ensuring sustainable healthy life of the citizens.

2. **Social commitments of the state must be aligned with economic opportunities. This calls for full inventory of existing social legislation, for instance, cost-based assessment of current laws covering social sphere.** A source of funding must be assigned for each of these laws: budgets of different levels, social insurance, joint public-private funding or alternative sources. At the legislative level, compliance has to be ensured between the exercised functions and required resources. Social consequences can be forecast only if all draft laws and by-laws, as well as draft agreements with other countries and international organizations, undergo compulsory social expert examination.

It seems appropriate that the framework *Law On Social Policy of Ukraine* should be passed, stipulating:

- directions of government social policy setting the foundations for a social state;
- division of responsibilities between public authorities, local governments and citizens' self-organization entities in social policy implementation;

- matters related to joint activities on the basis of public-private partnerships;
 - financial, professional, scientific, information, legal, organizational and technical support of social policy.
3. **Systemic reforms of the social policy require shared social responsibility through involvement of business in resolving part of the social problems.** As a strategically oriented entity, the state must urge businesses to take social responsibility through introduction of a number of special incentives. Those incentives should include:
- *fiscal incentives for social responsibility of business* – these measures should be related to the sectors where positive effect for the society exceeds specific economic effect for the enterprise. Their introduction in Ukraine is closely linked with tax and inter-budget relations reforms, and should be incorporated in the amendments to the Tax Code of Ukraine;
 - *active promotion of values and standards of socially responsible business*, better population awareness of best and successful practices, development of incentives for socially responsible business, like social responsibility ratings, quality ratings, respective competitions, prizes, honorary titles, awards etc.;
 - *state support to national and international initiatives* related to social responsibility, facilitation to introduction of international social standards of business, and involvement of companies working in the territory of Ukraine in national social programs and international social initiatives;
 - *institutionalization of public-private partnerships* through development of special legislation and appointment of responsible national and local government institutions;
 - *incentives to 'social' organizations and financial institutions* – self-governing medical insurance (hospital benefit societies), credit unions, associations of co-owners, consumer cooperatives, etc.

2.2.3. Strategic trends of long-term social development and ways of human capital quality improvement

1. **Strategic objective of Ukraine's social policy is to consistently increase living standards of the population** based on self-development of every citizen, reduction of social, economic and cultural inequality, and re-establishment of the country's economic and social role in the global community. Ukraine's long-term competitiveness in the globalized world requires improvement of living standards of the most numerous population groups as a basis for formation of the middle class as the foundation of social stability. Practical implementation of this principle makes government policy a leading factor of social development, an active component for the national integration strategy, and the main formation mechanism for the new living standards of people.

These new standards will include proper conditions for implementation of social justice principles, prevention of social alienation, development of abilities of every member of society through productive employment and income opportunities, reflecting the importance of their labor for the society, and guaranteeing adequate living standards and satisfaction of physical and spiritual needs.

2. **Adequate income is the proof of the society's ability to protect everyone's right to decent life.** Growing incomes of the population, combating poverty, and reduction of property stratification form the basis for effective retention and reproduction of labor potential, development of healthcare, education, culture, as well as social infrastructure sectors. The main tasks in this area are:
- establishing balance between labor efficiency and pay, bringing the pay level close to the real market labor cost, stage-by-stage harmonization of labor remuneration of Ukrainian employees with salaries of their European counterparts of similar categories;
 - increase of salary share in the GDP, ensuring sustainable growth of real wages as a sign of connection between individual labor activity and economic growth of the country;
 - fixing disproportions in the mechanisms of income redistribution and reducing income-based stratification, overcoming profound property stratification and facilitating development of middle class in the society;
 - practical implementation of pension reform with gradual transition to compulsory accumulative pension insurance and speedy development of parallel voluntary pension insurance system with the final aim of preventing impoverishment of pensioners;
 - establishment of effective system of social risks protection of the population.

- 3. Flexible and effective labor market is an important component of modern social policies.** Economy globalization processes strengthen competition for qualified labor force. This competition will increase requirements for salary, safety, labor conditions, social guarantees, etc.

In practice, human potential of the nation has to be developed through conditions created for worthy labor. Realization of a person's right to work plays an important role in the process of one's socialization, it gives motivation for self-improvement and development, and is a compulsory condition for constructive consolidation of society. Optimization of employment structure, transformation of labor remuneration system and improvement of labor market regulations will not only give a chance to achieve considerable improvement of living standards for broad population groups, but also help in approximating the society's social structure to the European practices.

The main tasks of the government policy in the labor market are:

- improvement of workforce quality and development of its professional mobility based on professional education that would take into account defined national priorities of economy development;
- formation of labor value on the basis of social agreement of all labor process subjects: employees, entrepreneurs, public and social institutions;
- differentiation of labor remuneration on the basis of its quantity and quality;
- introduction of flexible employment forms to resolve the problems of unemployment, new workforce sources, and optimization of their utilization;
- introduction of state-of-the-art social legal mechanisms regulating labor relations through development of collective and individual contractual regulation in labor and social protection areas;
- increasing workforce mobility through distribution of information about the situation at the regional labor markets, stimulation of demand for workforce, development of economic mechanisms encouraging employers to create new jobs, first of all in the regions with surplus labor resources, development of shift-based temporary employment methods, democratization of the housing market etc.;
- minimization of negative consequences of labor emigration, encouraging migrants to return to the country and guaranteeing their adaptation, among other things, through stimulation of entrepreneurship and self-employment;
- implementation of social partnership principles at the labor market, ensuring transparency of labor relations, labor market openness for fair competition, and gradual ousting of its shadow segments;
- development of instruments encouraging Ukrainian population to practice self-employment and entrepreneurship.

- 4. Strategic establishment of the European living standards in Ukraine requires radical improvement of quality and efficiency of social services.** Only with effective steps in this direction, the task of economic growth stimulation can be organically combined with consistent effective humanitarian development. The main objectives of improvements in the social sector are:

- prioritizing public social expenditures for the core elements of social sector, guaranteeing citizens' constitutional rights, maintaining potential for social sector development in the future;
- radical improvement of quality and effectiveness of social services through diversification of service providers and improvement of their order placement and performance mechanisms, while the state guarantees minimal social standards;
- social and economic development programs should be based on an established set of research-based national standards and norms, with the approach based on differentiation of social and demographic features, transparency and public control in their identification and application;
- harmonization of national social standards with international norms and standards, e.g., on labor remuneration, pension levels, universal state social insurance, social assistance, etc.;
- reform of the social benefits system to ensure its targeted utilization and stage-by-stage transition to cash benefits based on voluntary choice of eligible citizens.

- 5. Long-term human potential reproduction processes should be facilitated by childbirth incentives, as well as family support and development.** Birthrate increase is crucial to quality reproduction of society and future formation of competitive nation through humanitarian development. Comprehensive conditions for child development in harmonious families is the best way to ensure stability and succession in the cultural ethnic environment as a guarantee for restoration of nationwide unity. Targets of state demographic policy include decrease of natural population reduction rates, stabilization of population numbers, and creation of conditions for its growth, as

well as improvement of living standards and increase of life expectancy. The main tasks in this area are:

- improvement of reproductive health of the population through promotion of healthy lifestyle, introduction of respective programs of early diagnosing and quality treatment of reproductive problems of the population;
- improvement of quality of medical care for mothers and babies, improvement of material and technical basis of obstetrics and pediatric institutions; provision of necessary medications; extension of medical services to cover families in rural areas;
- improvement of well-being of families with children: timely one-off childbirth assistance, additional monthly allowances to single mothers and poor families with many children;
- improvement of housing conditions of families, for instance, targeted long-term mortgages for housing or construction for young families; improvement of preferential lending mechanism for those families depending on the number of children in the family; development of modern norms and conditions for provision of social housing, improvement of target assistance system of repayment for housing for poor families with many children;
- formation of a system of social and personal values oriented at family with two or more children;
- giving priority support to families with children to provide the young generation with equal access to education, medical care, professional training, which can help form human potential meeting the needs of the country's transformed economy.

6. Development of healthcare system and introduction of priorities of healthy lifestyle is the tool for maintaining the current human potential and strengthening the existing creative potential of the society. The Ukrainian healthcare system does not provide sufficient guarantees of medical assistance, nor accessibility or high quality. Reduction of healthcare investments has broadened the gap between Ukraine and developed economies much more than the other key sectors of economy.

Improvement of public health requires a quality breakthrough in the healthcare system in prevention, diagnosing, and treatment, as well as promotion of healthy lifestyle. The main tasks in this sector are:

- development and implementation of well-balanced effective medical economic healthcare model that can combine active introduction of insurance medicine and formation of medical services market, while maintaining guaranteed qualified free-of-charge emergency medical assistance;
- considerable enlargement of healthcare programs funded by the national and local budgets, with their investments targeting improvement of healthcare system;
- ensuring effective quality control of medical assistance in both public and private sectors of medical services;
- prevention and early diagnosing should become priorities for healthcare institutions;
- formation of healthy environment with safety of labor, consumption, life, recreation, etc.;
- promotion of healthy lifestyle, including proper nutrition, physical exercise, rejection of bad habits, optimistic attitudes, rational behavioral stereotypes of the population in different life situations, realization of community and individual responsibility for one's own and family's health protection and improvement;
- priority development of resorts, recreation, sports, and prevention to satisfy the needs of population in proper recreation, health improvement, illness prevention, rehabilitation of one's physical and spiritual powers, reduction of social and economic inequality in terms of access to those resources.

7. Effective system of accessible continuous learning should be seen as a basic condition for implementation of every person's right to free development proclaimed in the Constitution of Ukraine to ensure decent living standards of the citizens. With economy transformations and increasing role of modern technologies in production, education becomes a necessary condition and the main tool for transformation of human potential into quality human capital. Education that corresponds to the needs of society and labor market plays a powerful role in humanitarian development as it gives every person the ability to adapt to modern social and economic reality quickly and provide for adequate personal living standards.

Reality of the modern world, the current and future social and demographic tendencies in Ukraine require considerable education upgrade toward a broader coverage. Children and youth should be involved in education, along with middle-age people wishing to acquire knowledge and skills to get better jobs and development opportunities.

Hence, basic education must be complemented with additional education programs. Besides knowledge in a specific profession, a HEI graduate must also acquire professional lifelong learning skills, develop the skills of communication, adaptability, self-improvement, organizational and group effectiveness, etc.

The main tasks in this area are:

- ensuring equal access to quality free-of-charge education for representatives of different social strata, regions, etc.;
- extension of government commission for professional training at the higher and vocational education institutions to include representatives of vulnerable population groups;
- integration of talented youth into research and innovation environment;
- transition to education based on the standards of new generation and innovation development;
- application of decentralized approach to professional training to meet the requirements of regional economy and education needs of the local population;
- compliance of professional and advanced training with the tendencies of labor market development and person's needs in lifelong learning;
- connecting national models of preliminary education recognition with the European qualifications structure, improvement of their comparability and transparency;
- defining core skills and key competencies, enhancing compliance with the EU countries in this field;
- building criteria and mechanisms of recognition and approval of informal types of education.

Introduction of the above structural changes can give a positive impetus to further development of the social orientation of the Ukrainian economy. As these measures can take the country's social policy out of 'development deadlock' caused by currency exchange and financial destabilization and stronger budget restrictions, it can be seen as a 'consolidation point' curbing the conflicts between the state, employers and rank and file citizens.

Chapter 3.

NEW QUALITY OF REGIONAL DEVELOPMENT

2.3.1. Revealing regional development potentials

1. **The status of regional economies reflects nationwide macroeconomic tendencies, revealing their controversies.** As before, the most pressing problem is disproportional economic and social development of the regions, which constitutes 2.7 times difference in terms of gross added value production, 3.9 times in terms of fixed capital investments, 1.5 times regarding average monthly salary, and 5.7 times as to the unemployment rate. The crisis has clearly demonstrated marker backwardness of regional economies and solidified chronic structural misbalances, even for the traditional leaders such as Donetsk, Dnipropetrovsk, and Kharkiv regions. Most regions of Ukraine are characterized by a low level of social and economic development, their economy is deformed in favor of raw material-based sectors, production sector is unbalanced, core productions are technologically backward, and local resource potential is utilized with low efficiency in general.
2. **Modern regional policy building requires new conceptual foundations for economic and social development of the Ukrainian territories.** The exhausted extensive development is characteristic for modern Ukraine, as well as destructive trends in production complexes of the regions, spreading reliance on external support among regional management elites against the backdrop of ineffective subsidy and subvention mechanisms to combat backwardness of the territories give evidence of the lack of perspectives in the target budget funding of 'spot-on' regional projects and maintained 'manual control' practices in funding distribution for these purposes.

Regional economic policy in Ukraine must be based on business competitive principles and market mechanisms, activation of economic incentives for best use of available regional development potential and institutional opportunities of the territories, overcoming of paternalist expectations, minimization of subsidy and subvention support mechanisms for the regions. Regions should play the leading role of developers, operators, and the entities responsible for implementation of the policy. Relations between the state and the region should be based on interest parity, self-development priorities, partnership, and responsibility.

Hence, new approaches of government regional policy, as well as social and economic policy of the regions under these conditions should aim at:

- creation of effective economic structures at the regional level, oriented at intensified use of available local resource potential;
- formation of competitive self-sufficient regional innovation-based production systems;
- increased cooperation between economies of different regions.

3. **The role of the state in the regional development strategy should lie in formation of institutional and macroeconomic environment for balanced development of the regions.** Thereby relations of the central government and the regions should be built on the following principles:
 - centers of decision-making for the tasks and ways of current areal development should be moved to the regional level;
 - the state must increase the regions' own economic interest in their development, particularly by streamlining national income distribution models;
 - the state must be an equal partner of local governments and private business structures in the development, funding and implementation of local economic and social projects;
 - along with regional and local management, the government must be fully responsible for non-fulfillment of administrative, financial and social commitments.

Moreover, the Center must remain responsible for improvement of the regions' competitiveness in the following areas:

- leveling of excessive disproportions in the regional development, first of all in terms of social indicators;

- guaranteed direct support of economic development in certain regions through state investments in priority production and infrastructural projects of nationwide importance, placement of government orders and signing of government contracts;
- completion of a set of structural reforms in basic industry sectors that form budgets for individual regions of the country (mining, metallurgy, chemical industries, machine building, etc.), and minimization of their negative social consequences;
- initiation and participation in implementation of large-scale investment and infrastructural projects on conditions of financial sources diversification (primarily projects related to Euro-2012);
- establishment of conditions and intermediation for the region's effective participation in the system of international labor division (including external trade and investments, cross-border and Euro-regional cooperation, workforce migration);
- formation of favorable domestic investment environment (e.g., through preferential investment and tax regimes, optimization of FEZ and TPD functioning).

4. New quality of regional development requires diversification of the regions' economy through improved use of available local resources and search for new uninvolved ones, focusing on utilization of regional market potential. Search for alternative economic development options, ensuring its intensive progress is the objective of structural reforms at the regional level.

Internal resources of regional development and rationalization of their utilization must be mobilized through:

- establishment of regional production facilities that require no specific resources and focus on domestic markets (textile, light industry, agricultural processing, etc.);
- advanced development and support of small local entrepreneurship;
- formation of a favorable investment climate, building foundations for the state regional development funding on contractual basis;
- utilization of the regions' potential in international trade, their border proximity, and export-oriented production;
- strengthening of financial capacity of communities through regularization of inter-budgetary relations, expansion of fiscal base of the local budgets and search for extra-budget resources;
- development of regional and interregional infrastructure, implementation of local investment projects with quick multiplication effect;
- private sector involvement in implementation of regional and local projects, improved social responsibility of business;
- development of modern forms of inter-territorial economic integration and cooperation for joint utilization of local resources and resolution of local development problems.

An important component of local development intensification is promotion of clusters and industrial parks based on high technology models. Such forms of production organization give more options for utilization of local resources, use of investments, including foreign investments, they provide access to new sales markets and help utilize potential for regional cross-border cooperation fully. Cluster development can be stimulated through formation of inter-sectoral and inter-industry relations between the central and local authorities, local governments, business companies, and civil society institutions. Proper legal grounds should be established for their functioning, with defined tax incentives for high-technology production, first of all in economically backward areas with surplus of labor resources.

2.3.2. State regional policy reform: from paternalism to partnerships

1. Capacity building of local governments for effective functioning of regional economies requires adequate funding for their activities in this sector.

The crisis of 2008-2009 had displayed deepening controversies in the formation of local budgets. On one hand, the main sources of local budgets are the individual income tax, providing 77.3% in the income structure, and the single tax with 3.1%. Both were affected by cyclic fluctuations. On the other hand, taxes and duties that are not affected by development cycles play an extremely insignificant role in the revenue structure, moreover, their administration costs often exceed revenues. Profit tax of the utility companies provides no more than 2% of the local budget revenue.

The main objective of financial reform for the local governments is reduction of resources received from the state with simultaneous increase of resources collected at the local level. Alternative financial sources of local governments would gain importance; they should be found through extension of fiscal base and involvement of non-budget resources for local development policy implementation.

Local governments should receive fiscal benefits from taxes that are closely related to the performance of respective region's economy, and use of production and social infrastructure at the local level. This can help improve control over payment of various types of taxes at the level of local governments, over their sources and real dimensions of the tax base, strengthen interest of local authorities in developing effective regional economy.

Cycles-proof and stable revenues can be provided by real estate tax, land duty, and vehicle owners' tax. They must gradually begin to form local budgets. The list of local taxes and duties should be reduced and only fiscally important taxes must be kept, including first of all market fees, utility tax and advertisement tax.

Local governments should be given the right to extend loans between same-level budgets with adequate guarantees of the state. Moreover, utility enterprises can be collateralized for purposes of financial transactions with participation of local governments.

2. Overcoming limited mechanisms of fiscal revenue redistribution and use of modern market mechanisms in funding of local governments will help promote the practice of local bonds issue. As a result, temporarily available funds of individuals and legal entities at the local level can be attracted and channeled to critical priority needs of local communities. Meanwhile, the use of municipal bonds becomes more complex without reliable payment guarantees, without an institution that could guarantee repayment to investors, with opaque and limited access to information on activity of municipal securities issuers. Hence, improvement of financial resources through municipal securities issue requires:

- development and legal stipulation of strategic foundations for development of municipal securities market in the middle and long term;
- redirection of municipal securities market to increase the share of long-term loans through secured investment support;
- diversification of budget revenue sources to cover the principal in local borrowings;
- free access to information on the issuers of municipal borrowings.

Under conditions of chronic budget deficit, non-budget financial resources can strengthen financial sufficiency of the communities, facilitate multiplication of local funds and real decentralization of financial resources. Development of a broad network of various financial associations, unions and branches of credit institutions at the regional level can provide additional investment guarantees, facilitate formation of labor force market and build local infrastructure, while community members can gain awareness of their personal role in resolving community development problems.

3. Structuring communities funding by the government and searching for additional revenue sources require reform of inter-budget relations and primarily of inter-budget transfers.

The system of inter-budget transfers that exists in Ukraine shows excessive centralization of budget flows, manifested in a considerable share the transfers have in local budget revenues (45.1%), and in prevalence of unjustified aimless leveling subsidies in the structure of those transfers (55.9%). Subsidies are provided to 25 out of 27 regions. As a result, local authorities rely on the national budget and are not stimulated to look for their own development resources.

The inter-budget relations reform should start with enlargement of low-level administrative units to reduce administration costs and channels the accumulated funds to the local development needs. Enlarged administrative units can help the government establish direct inter-budget relations and reduce dependence of the lowest administrative territorial units on the district authorities.

The next step of the inter-budget relations reform should be strengthening revenues of the local budgets by giving them portions of certain nationwide taxes, for instance, profit tax of non-communal property enterprises.

The third step should involve changes in the transfer structure. The inter-budget transfers reform should focus on replacement of inter-budget relations mechanism and increase of target funding. Transfers should mainly consist of subventions, with their target use defined by the local governments.

The fourth step of inter-budget relations reform shall change the transfer distribution formula which has to take into account regional features of population settlement, conditions and existing network of budget institutions.

The final measure of the inter-budget relations reform should empower the regions and communities to form horizontal inter-budget relations between communities of the same level to enable them to resolve current problems without interference of the government and reduce the number of recipient local budgets.

4. Entrepreneurship development should become a priority for social and economic policies of local authorities. Advanced development of small and medium enterprises at the local level is one of the most productive solutions of economic and social community problems.

A framework has been established for comprehensive development of small business. However, economic policy of the local authorities mostly targets large business. Lack of integration of small and medium business into regional and national economic systems still presents a considerable problem in this sector. Normally, local small and medium entrepreneurship develops spontaneously and chaotically, without purposeful efforts of the local governments to streamline its structure and increase economic share. Unsatisfactory activity of local authorities in diversification of entrepreneurship results in a nearly universal prevalence of micro-entrepreneurship, first of all in trade and services. Such entrepreneurial structure does not create new jobs, extend the tax base, or diversify economy of the territorial unit. Moreover, innovative activity of small entrepreneurship remains extremely low.

Policy effectiveness in small business support depends on whether local authorities and local governments can effectively transform national priorities in this area into specific targeted measures. This requires that controversies and competency ambiguities should be resolved to delineate authority of the state and local governments concerning entrepreneurship development.

The local authorities have the following tasks to promote entrepreneurship development and small business optimization:

- recognize small business development as a program priority of social and economic policy at the local level;
- provide comprehensive information and organizational support to the starting entrepreneurs (increase openness and transparency of premises and facility lease procedures, land allotment; infrastructural support for entrepreneurship development, etc.);
- facilitate access to microloans for small businesses through close cooperation with regional entrepreneurship support funds, among other things;
- to promote small entrepreneurship in the rural areas, including entrepreneurship in private agricultural production, rural and green tourism, services, etc.;
- include areas attractive for small business to the list of investment facilities envisaged by investment passports of the regions, prioritize investments in small business;
- provide consulting for small businesses on activity diversification, including innovations;
- involve small and medium business to fulfillment of regional orders;
- introduce permanent monitoring of small business development status in the territory of the region (community) and amend area development programs accordingly.

The main tasks of support to innovation entrepreneurship at the regional and local levels should be: comprehensive organizational, financial, information and marketing support of innovative projects carried out by small businesses; intermediary support in building contacts between inventors, potential producers and consumers of innovation products; consultations in licensing of innovation-based products and intellectual property rights; training and advanced training of entrepreneurs and staff for innovation entrepreneurship, etc.

Important areas include ensuring interaction and partnership of entrepreneurs with executive authorities of all levels of local governments, cooperation between entrepreneurs from different regions,

establishment of the system of public control over law enforcement in entrepreneurship. Public associations of entrepreneurs and consulting counseling agencies under the local governments should play an important role in small business development at the local level, and establishment of partnerships between business and authorities. As at January 1, 2010, there were 901 local and 98 sectoral entrepreneurial boards in Ukraine, yet their activity still hasn't become systemic or noticeably efficient.

5. Developmental disproportions between different regions can be reduced dramatically if disproportions in investment attractiveness of the regions are fixed. Until now about 40% of foreign direct investments and 17% of capital investments stay in Kyiv; regional disproportions in fixed capital investments constitute 6.9 times per capita, and in foreign direct investments they reach 92.6 times per capita.

Central and local authorities, as well as local governments together should focus on establishment of favorable conditions for investment activity in the regions. Local authorities should give priority to formation of investment passport of the area based on results of its investment potential surveys, intermediary and consulting activities in relations between the investors, entrepreneurs and administrative authorities; advertizing and information support of domestic market and resource potential of the area; market infrastructure development, and improvement of the overall business climate.

Strengthening economic investment incentives at the local level and increasing its effect on the regional business would require the following levers:

- government contracts as an agreement with public enterprises on investment of resources and control over their utilization;
- government orders as guarantee of sales market for private enterprises to improve investment climate of the region;
- investment subventions from the national and local budgets for investment projects on conditions of reduction of actual budget expenditures and recipient's participation in funding.

Mechanisms of government contracts and government orders require regulation of the rights of local executive authorities to sign such contracts, and the rights of local governments to provide government orders. Thereby national budget funding can be decentralized and stronger control can be established over expenditures. Government contracts, government orders and budget investment subventions can create competition for the funding between the regions and facilitate transition from subsidies to investments and contractual relations between the national government and the regions.

Investment attractiveness of the regions with investment shortage can be improved through optimal utilization of special legal regimes of economic activity, first of all in the form of special economic zones (SEZ) and territories of priority development (TPD) for harmonization of regional development, improvement of investment attractiveness, boosting competitiveness of the territories, and prevention of abuse of this instrument.

6. Full participation of the state in transport infrastructure building should become an important factor of regional development. This factor becomes more important through powerful investment and multiplication effect of such projects. Preparations to hosting of the final games of the European Football Cup in 2012 can become a powerful incentive for national transport infrastructure development. Well-developed regional transport infrastructure strengthens interregional and cross-border economic relations, it increases competitiveness of the regional economies and establishes international image of Ukraine as a safe and expedient transit country.

The transit potential of international transport corridors is becoming especially important for Ukraine and its regions. First of all, this requires enforcement of international standards of functioning and maintenance of transport infrastructure, as well as border crossing and customs procedures.

Priority in regional transport network development should be given to:

- strengthening the coordinating role of the government in transport infrastructure development at the regional level and its harmonization with the global transport system;
- Ukraine's active participation in the development of international transport corridors;
- promoting the development of interregional logistic systems and transition to modern transport service technologies;

- introduction of modern communications, road transport and mapping systems at the local and regional markets of transport services;
- environmentally friendly transport infrastructure, safe functioning of transport sector, and mitigation of its negative environmental effects;
- formation of a nationwide information space on transportation services.

Government participation in the development of infrastructural facilities in the regions must remain one of the few forms of direct government funding of regional development. Future forms of state participation in the transport infrastructure development of regional, interregional and international importance should include:

- joint efforts of central and local executive authorities and local governments under the guidance of central government for priority development of transport infrastructure facilities;
- direct investment or participation in diversified funding of transport infrastructure projects from different sources: budget money that should be provided within the framework of target state programs; investments and loans that can be part of the government investment and lending; funds of local budgets of all levels; private sector funds;
- active use of public-private partnership potential in transport infrastructure development through concession agreements and state guarantees for credit instruments;
- development of contractual relations between the central authorities and regional local governments in joint funding of transport infrastructure construction projects;
- government support of transport machine building, development of local construction technologies, machinery and tools, maintenance of transport fleet;
- harmonization of national transport standards with international technical, maintenance, environmental and traffic safety standards.

Transport infrastructure construction and upgrade, development of logistics systems and information technologies at the regional level will accumulate and multiply material, investment and human resources locally, laying the foundations for fast local economic effect and facilitating competitiveness of the areas in the longer term.

7. The regions' direct participation in the international trade should improve their competitiveness, overcome narrow production specialization, and strengthen national and international positions of the regional economies. Priority tasks in this area should include:

- establishment of a permanent decision-making dialogue between the Center and the regions regarding foreign trade policy reforms;
- assistance of local authorities in building foreign trade links between enterprises in respective territories;
- development of preferential customs regimes based on Ukraine's geographic location advantages and potential in cross-border and port territories;
- development of local innovative export-oriented production clusters.

Integration opportunities of border regions in cross-border cooperation and cooperation within the European region have a considerable development potential. Implementation of this potential requires:

- extension of the list of regions involved in cross-border cooperation with Poland, Slovakia, Hungary, Romania, Belarus and the Russian Federation;
- assigning strategic priority to cross-border cooperation within Euro-regions, with money assigned in the local budgets of Ukraine for support of cross-border cooperation programs and projects;
- expanding authority of the local governments to resolve tasks of regional and local development common to the regions of neighboring states;
- strengthening the economic aspects of cooperation within the framework of European neighborhood policy, particularly in foreign trade;
- intensifying activities of local self-governments in the development of cross-border industrial territorial clusters to boost cross-regional production and technical cooperation;
- formation of cross-border tourist clusters based on the recreation potential of the Western and Southern regions;
- promotion of ideas of cross-border cooperation, Euro-regions and European neighborhood policy in general among the public.

These strategic tasks of regional foreign policy can facilitate establishment of economic and cultural relations with the neighboring states beneficial for Ukrainian regions and the country as a whole,

and lay the foundations for Ukraine's in-depth participation in the integration processes within Europe and the CIS.

8. Partnership between the state, business and public should take the leading role among mechanisms that can effectively resolve the problem of limited resources of local development through joining efforts, potentials, and harmonized interests.

The nature of the tasks given to regional and local administrative, political, business and civil elites will define specific forms of public-private partnership, such as concessions, rent relations, leasing, product sharing agreements, joint management of state and municipal property, and joint economic activities. Public-private partnerships should play a special role in the development of facilities for local production, transport, communal and social infrastructure whose current state is critical.

Efficiency of public-private partnerships depends directly on streamlined decision-making of executive authorities and local governments, consideration of nationwide priorities in local development tasks, and combination of declared long-term priorities with experimental pilot commercial projects at the regional and local levels.

The role of public-private partnerships grows with the need in private investments for local projects related to social responsibility of business. Local authorities and governments should play a key role in establishing stable and effective relations between the government, business and community in solution of local social problems on the basis of voluntariness and mutual benefit. Partnership and social responsibility elements can be promoted through:

- favorable conditions for business entities that participate in resolution of the territorial social problems;
- private property and management of facilities created within partnerships with partial private funding;
- streamlining of bidding and other procurement procedures for central and local budget-funded projects for partner organizations;
- benefits in payment of local taxes, duties, lease and other payments for enterprises and organizations involved in patronage, sponsorship, and charity;
- financial support by local budgets to non-governmental participants of social policies.

Public-private partnerships must become an inseparable component of the society democratization processes, an institution facilitating optimal division of authorities and responsibilities of the state and business at the regional level, and ultimately ensure internal spatial and social consolidation of Ukraine.

9. Partnership between the state and regions should be established through active implementation of regional development agreements between the Cabinet of Ministers of Ukraine and the Supreme Council of the Autonomous Republic of Crimea, regional, Kyiv and Sevastopol city councils. This mechanism can ensure the market nature of economic influences of the government at the regional level.

Such agreements should be based on the national and regional interests in territorial development, as well as concentration and direction of limited resources for priority development projects. Central and local executive authorities and local governments should share responsibility for regional and local development and ensure stability in the relations between central and regional authorities.

As at April 2010, only Donetsk, Lviv, Volyn, and Vinnytsia regions out of 27 regions had signed respective agreements. The agreements are aimed primarily at the solution of short and mid-term local social and economic problems of the regions and lack long-term perspectives.

Efficiency of the central government's participation in the regional development support agreements can be increased through:

- elimination of existing shortcomings and controversies in practical agreement implementation procedures and improving the share of competences between the leading ministries and other executive authorities in signing and implementation of the agreements;

- synchronization of financial priorities within the framework of the agreements with the priorities identified in the State Regional Development Strategy until 2015 and relevant regional strategies if the latter are reviewed and updated;
- rationalization of project funding shares, for instance, towards decrease of state participation and increase of private capital contributions;
- prioritizing of projects in preparation for the final games of the European Football Championship of 2012 in regional agreements;
- clear definition of authority of the parties, shared responsibility of the central government and local authorities for the ultimate result of implementation of contractual commitments.

Part 3.

POLICIES OF NATIONAL PRAGMATISM AND SECURITY OF DEVELOPMENT

Protection of national values and interests is the *raison d' être* of any state, and national security is a priority for a state policy. At present, Ukraine faces a hard task of correcting mistakes that have been made before. Five years of “great illusions” have thrown Ukraine back almost ten years into the past. Great intellectual, material and social resources were squandered. Ukraine has found itself in a predicament, but it is not a hopeless situation.

The strategic task for the Ukrainian people and the government is to build up a modern and effective statehood; priorities and ways of development must be mapped, the means of integration into the world community are to be assessed. Any attempts of domestic and outside forces to throw doubt on this course and use the situation as a pretext for adopting lopsided foreign preferences, pose a threat for the security of Ukraine.

Ukraine wants to be treated as an equal partner in the system of international relations. Ukraine wants to be a reliable partner in solving arising problems, particularly in dealings with the neighboring countries. Ukraine's efforts should be focused on several priority issues and such focusing, together with the country's refusal to adhere to the misinterpreted kind of globalism, is a must.

Development of a favorable international environment is among the priorities of Ukraine's foreign policy. Ukraine should strengthen its capabilities in order to rise up to the external challenges and threats to its national security at the nation-wide level. It should be done through the development of mutually advantageous relations with other countries on a bilateral or multilateral basis.

Chapter 1.

FOREIGN POLICY OF NATIONAL PRAGMATISM

3.1.1. New priorities in foreign and security policies

1. The first decade of the 21st century was marked by dynamic changes in the global political, financial and economic situation. The impact of the crisis stepped up the search for new forms of global coordination and for dealing with economic risks to be conducted more vigorously. The role of national states, of international organizations and associations, the G8 and the G20 countries in particular, is growing. Reforms of the international financial institutions, the IMF and the World Bank in particular, are gaining speed. The current system of international relations is being transformed. Reforms of the UN and institutionalization of new forms of international security are being discussed in Europe and elsewhere. The processes of regional and sub-regional political, economic and security integration in Latin America, Middle East, Asia and Pacific region are gathering speed.
2. A deep polarization in the level of development and standards of living between the rich and poor nations becomes, if anything, deeper – the **world's population continues to grow incessantly**, while the population of the developed countries keeps getting older. The environment is deteriorating, access to natural resources is getting to increasingly difficult, particularly for the developing countries. The absence of effective mechanisms of dealing with such challenges provokes ten-

sions and instability; radical and extremist movements and trends are on the rise, particularly fed by ethnic and religious differences; the struggle for natural resources and ways of their supply is becoming fiercer; conflicts flare up more often – all of this results in a growing number of instances of international terrorism. The danger of nuclear arms proliferation is becoming ever more acute. Information and other integral parts of the infrastructure are becoming more vulnerable. The competition among the major world players in Europe and in Asia for widening the spheres of influence is not abetting.

The **fight for control of energy recourses** is one of the outstanding examples of this competition. It contributes to mounting tensions and conflicts in the region of the Black and Caspian Seas. Discovery of new deposits of natural gas and oil turns the Caucasus and Central Asia into the areas of potential confrontations. Tensions are rising not only among the local countries but may potentially cause conflicts among the major actors on the international arena. Disputes over transportation and transit corridors are becoming more acrimonious and Ukraine, being a country through which several pipelines run and deliver oil and gas to Central and Western Europe, cannot help being concerned. The simmering conflicts in Transdnistria and in the Caucasus need to be addressed.

The inter-dependability of countries is increasing, and **the line between the internal and external security issues is blurred**. The importance of international cooperation, which is affected by economic, social, humanitarian and environmental factors, is growing.

3. It would be reasonable to direct Ukraine's policies towards the formation of **effective mechanisms of cooperation with the influential countries and international organizations**, such as the UN, NATO, European Union, the Organization of Cooperation and Security in Europe, and the Collective Security Treaty Organization. Ukraine should participate in the work of the global and regional mechanisms that are designed to combat and prevent international terrorism, extremism, piracy, drug trafficking, illegal immigration, cyberthreats, etc.

Ukraine should uphold its interests within the UN framework on the basis of Ukrainian President's decree # 345 of June 15, 2009, *On Strategic International Peacekeeping Activities*. Ukraine should participate in UN peacekeeping operations and expand its cooperation with the UN in peacekeeping activities. Cooperation with specialized UN agencies should be maintained. Ukraine should step up presentation of its interests in the UN agencies that deal with sustainable development, climate change and environmental protection.

4. **Nuclear disarmament** is one of the priorities of the global community. Ukraine has voluntarily discarded its strategic weapons and thus made a significant contribution to nuclear disarmament by getting rid of a large amount of nuclear weapons, and now Ukraine should continue to honor the Nuclear Non-Proliferation Treaty (NNPT). At the nuclear security summit which was held in Washington, DC, in April 2010, Ukraine, represented by its President, divested itself of its stocks of enriched uranium. Now, when the existing system of strategic stability is being reformed, Ukraine should **formalize the guarantees of its security** and make the conditions for such guarantees expressed clearly and unequivocally. **These guarantees were provided to Ukraine in corresponding international agreements** at the time when Ukraine was joining NNPT.

Ukraine can offer the world its ideas about developing NNPT in the direction of making the treaty universal – all the countries that have nuclear weapons should sign it. A mechanism of control should be developed to oversee how the nuclear countries abide by NNPT and go ahead with nuclear disarmament. Nuclear powers could, for example, submit yearly reports. Clauses on “negative guarantees” can be added to NNPT so the nuclear powers pledge not to be the first to use nuclear weapons against any country that does not have nuclear weapons and that has joined NNPT.

Ukraine should suggest new ways of ensuring non-proliferation of nuclear weapons. The additional 1997 NNPT protocol should be ratified by all the NNPT members augmenting the controlling authority of the International Atomic Energy Agency (IAEA), and it must be a condition for international cooperation in nuclear energy. Secondly, any supplies of nuclear technologies and materials to the countries that have not joined NNPT or the MAGATE all-encompassing guarantees must be stopped. Thirdly, supplies of equipment and technologies for creation of full nuclear cycles to non-nuclear powers but which are NNPT signatories must also be cut off if they have not joined the additional NNPT protocol. Fourthly, nuclear materials supplies to those countries which chose to leave NNPT must be revised.

5. Ukraine's foreign policies, if Ukraine wants to expand its participation in the WTO and attract investments, should aim at establishing contacts and at forming mechanisms of cooperation with influential international associations such as **the G8 and G20, Shanghai Cooperation Organization, and groups pursuing their interests within the WTO framework**. Since Ukraine is still laboring under the impact of the crisis, its cooperation with the IMF, World Bank, EBRD and other financial institutions is extremely important.

It is in Ukraine's national interests to further develop multilateral cooperation within **the framework of international regional organizations** to modernize its transportation infrastructure, energy grids, and environmental protection.

Ukraine's foreign and security policies should be pursued with closer international cooperation in mind. Other issues to be dealt with are international law and a growing role of multilateral organizations. It is in the national interests of Ukraine that the United Nations, Organization of Cooperation and Security in Europe, European Union, NATO and other international structures be reformed to fulfill the tasks that are necessary for maintaining global stability and sustainable growth, improvement of effectiveness of international institutions and their ability to rise to the challenges of today. An important direction in Ukraine's policies is the development and use of consultation mechanisms in security issues within the current or new formats.

6. **European integration is Ukraine's strategic course** and a foreign policy priority. Ukraine cannot stay away from the European processes and it wants to join the development of the European security system. Ukraine shares with other European countries a concern over protection of common goals and values. Number one task here should be the creation of a free trade area with the EU and signing the association agreement.

Ukraine's de facto nonaligned status is the only possible foreign policy course for today that has been determined by external political conditions. Pursuing this policy successfully would require improvements of defense capabilities of Ukraine and modernization of the defense and security sectors. At the same time, Ukraine must increase its participation in collective security efforts.

7. Active foreign and security policies involve the development of a constructive dialogue with the neighboring countries. Ukraine's state borders must be fully delimited and demarcated, relations with NATO, the European Union, and Russia, the main regional military and political forces, should be cultivated. Full-scale dialogue with the Russian Federation on the basis of the 1997 Agreement should become one of the foreign policy priorities of Ukraine. It has taken a lot of effort to get the Agreement working again, and Ukraine should pursue the policies of equal and steady relations with the neighboring countries, the countries of Central and South Eastern Europe, and of the Black Sea – Caspian region.

8. Ukraine should develop **cooperation with the USA**, a strategic partner, on the basis of the Strategic Partnership Charter of December 2008 if it wants to have a stable development and improvement of investments and the innovation potential. In its relations with the USA, Ukraine seeks to launch and carry out mutually beneficial projects in economic, security, social and humanitarian fields. Such projects may also involve Russia and EU countries. Relations with the Chinese People's Republic, a world's leading country in terms of economic growth, are of special importance.

9. Promoting cooperation that goes beyond traditional economic relations with the countries of the Caucasus and Central Asia is strategically important for Ukraine. India, Brazil, and South Korea are powerful economies and Ukraine should, as one of its priorities, step up its cooperation with them. Relations with countries of Africa, South East Asia, Middle East and Latin America which show good prospects for the future will develop as well. Economic potentials of these countries offer new export possibilities, particularly for exporters of products with a high VAT.

Ukraine will have its security strengthened as the mapped course is pursued. Ukraine's influence in the world will increase, and conditions for social progress and cooperation with other countries will improve.

3.1.2. Integration into Europe as a priority of Ukraine's foreign policy

1. Integration into Europe is impossible without preserving stability and maintaining all-round security in Europe that should be based upon mutual understanding of security as being indivisible and common for all the states of this region, and of threats to one being a threat to all. However, in spite of the fact that there is such an understanding in Europe, the pivotal decisions are taken by separate organizations and countries – NATO, the EU, Russia, etc. We believe that it is in the interests of Ukraine that a **system of maximum integration should be created to cover the space from Vancouver to Vladivostok. This collective European security system should also guarantee protection for such countries as Ukraine that do not belong to any military blocs or defense alliance.** Efforts should be made to improve the current security situation in Europe – security should be based on the shared democratic principles of respect for sovereignty, territorial integrity and inviolability of borders of all the countries. The role of the Organization of Security and Co-operation in Europe (OSCE) should be expanded through reforms of this organization which must include new international and legal mechanisms of its activities. A dialogue on the future format of European security should be continued. Russian proposals as to the development of a new treaty on European security should be welcome, as well as the transformation processes that are occurring within NATO and the EU.

Ukraine should come forward with its own security initiatives for the subcontinent and be ready to offer its territory for a multilateral dialogue on these issues. Ukraine will spare no effort in making the security issue and a changed role of the OSCE a central one in case it will preside in the OSCE in 2013.

In order to develop cooperation and establish trust among European states Ukraine, as a country that borders on the EU and Russia, can initiate **trilateral meetings in the Ukraine- EU-Russia format** to coordinate cooperation in efficient border management, readmission, joint efforts against illegal migration, finding security and energy solutions, and participation in joint regional initiatives.

2. **Ukraine's non-block policy requires that the existing partnership mechanisms should be supported and improved, and that political dialogues with the military and political structures that exist in Europe be actively pursued.** The **North Atlantic Treaty Organization** plays a key role in maintaining stability in Europe. For Ukraine the development of trust and partner relations with NATO, a central institution of European security, is of principle importance. Relations with NATO should develop on the basis of agreements that have already been reached, and also on potential long-term plans and possibilities for further cooperation.

To achieve this, the country has to:

- take into consideration the essence of NATO strategic concepts, in the process of reforming Ukraine's security sector;
- speed up the development of practical possibilities for Ukraine's cooperation with NATO in such issues as airlift, peacekeeping, logistics of medical aid, field engineering, and other areas;
- enhance the role of joint working groups in the areas of military reforms, economic security, civil emergency planning, science, environment protection, and armaments, and review the groups composition.

Development of cooperation with the European Union in the field of security deserves to be treated with a particular attention. The EU has shown in the recent years that it is prepared to take responsibility in solving security problems both on the global and the regional levels. Providing security at the 2012 **UEFA** European Football Championship (Euro- 2012) to be held in Ukraine and Poland can become one of the areas of Ukraine - EU cooperation.

3. Economic, ecological and humanitarian aspects should also be included into security considerations. Such a wider format of cooperation will help meet the present-day challenges as it fits the human security concept. A special place within the framework of the European security system must be reserved for humanitarian aspects, trans-border movement, and migration control.

It is of a utmost importance for Ukraine's security to preserve **a system of control over the Treaty on Conventional Armed Forces in Europe (TCAFE)** intact and to restart a constructive dialogue to deal with the critical situation around the treaty. Evidently, the treaty is in need of a review. Ukraine should do its best to prevent rearrangement of the areas of influence in Europe or rearrangement of

borders, to contribute to removing unevenness in the capabilities of the countries that have signed TCAFE, and to further reduce offensive weapons.

Energy security is an integral part of security policies. Ukraine should take the necessary steps to reform its energy sector and promote transparency as a basis for preventing undesirable economic consequences that can emerge if the intention of Russia and the EU to build new natural gas pipelines bypassing Ukraine is carried out – Ukraine’s role as a transit country should be established in a revised energy charter. The main task today is to carry out the agreements that were reached following the Joint EU-Ukraine International Investment Conference that dealt with issues of modernization of Ukraine’s gas transportation system. Proceeding from the necessity to find a balance in economic interests, Ukraine should propose new ways of developing cooperation with Russia and the EU, relations that would take into account Ukraine’s desire to entice European and Russian capitals to be invested into modernization and development of the Ukrainian gas transportation system.

4. **“Strategic openness”** of the partners will be beneficial for Ukraine’s European ambitions. Both Ukraine and the European community, including the national states and European institutions, form strategies of development and seek to define their specific roles and models of survival in the future. This search for identities in a rapidly changing environment makes it possible for the partners to take an active part in determining each other’s goals and priorities.
5. One of the most serious problems on the way to Ukraine’s integration into Europe is the fact that **Ukraine has not worked out an effective policy of its European integration**, although it has declared its adherence to the European values and standards. Such a policy should be a complex model to determine importance of this or that initiative, its aims and priorities, ways of carrying them out and resources necessary for achieving the declared goals. A review of all the integration aspects must be carried out so that such a policy could be formed and the priorities clearly stated. State resources are to be channeled into fulfilling the top-priority tasks, for each of which an implementation plan will be developed.
6. At the present stage, **Ukraine and the European Union are proceeding from partnership to a totally new format of cooperation – political association and economic integration**. It is a challenge to achieve this goal, but once achieved it will be a considerable attainment too. The association agreement between Ukraine and the EU will be a legally binding document that will indicate concrete tasks to be fulfilled.

The nearest aim in the relations between Ukraine and the EU is to negotiate the Association Agreement that will include a free trade area. Signing a free-trade-area agreement with the European Free Trade Association (EFTA) is an important step in establishing the free trade area with the EU. At the same time, Ukraine should not neglect to protect its own economic interests. It is necessary to promptly work out ways of removing considerable trade imbalances between Ukraine and the EU, and Ukraine expects that its European partners will show understanding in dealing with this issue.

Visa liberalization is one of the priorities in the EU-Ukraine agenda. In 2005 Ukraine unilaterally introduced visa-free travel conditions for EU citizens, and now it is expecting a reciprocal move. Providing a roadmap before the end of 2010 would be a justified step. Obtaining visa-free travel could be facilitated for Ukrainians through a successful implementation of certain measures, such as improvement of state border management, introduction of foreign passports with biometric data, establishment of a single migration service and intensified work to prevent illegal immigration.

Ukraine must use the potential of EU regional initiatives, and the **Eastern Partnership** initiative is particularly interesting as Ukraine’s participation in it will open new perspectives for Ukrainian regional policies.

Ukraine’s integration into the European social, cultural, scientific and educational space is a precondition for Ukraine’s integration ambitions. Ukraine is only at the beginning of its movement toward integration. It is necessary to revise the basic concepts of development of education and information technologies, achieve equal acceptance of educational and scientific degrees, and bring Ukrainian higher educational establishments closer to the European standards through the Bologna process. Ukraine should join the EU programs which would increase its innovation and research capabilities

and would promote structural reforms in sciences. This, in its turn, will step up the involvement of Ukraine's research centers in European scientific projects.

Ukraine's active **participation in the work of the Council of Europe** is an important factor in Ukraine's bid to enter the European legal and humanitarian space. During its Presidency at the Committee of Ministers of the Council of Europe, Ukraine should demonstrate that it is prepared to meet its commitments concerning human rights, freedom of speech and information, and combating corruption.

Stepping up its bilateral dialogs with EU countries, particularly with Germany, France and the UK will be helpful to Ukraine's European integration efforts as well. A particular importance should be attached to multi-level economic cooperation which should range from mutually beneficial projects at the inter-state level to industrial-investment cooperation at the level of transnational companies. Ukraine must strive to become a truly stable state and a reliable partner, and Ukraine's achievements should contribute to creating a positive and attractive image of Ukraine in the eyes of the EU nations.

7. **Euro-integration policy is first and foremost an instrument for domestic reforms whose main aim is to modernize Ukraine, build up its democratic institutions and raise the living standards to the European levels.** Integration into the European political, economic and humanitarian space will create new possibilities for modernization and for introducing innovations into the development of the nation and society.

Development of relations with EU countries that neighbor Ukraine is of a growing importance as well. It has become imperative to invigorate the dialogue with **Romania** in order to deal with contentious issues, with a special attention to be paid to the problems of trans-border cooperation, ecological security and environmental protection, particularly in the Danube basin, support of the rights of minorities in both countries and other issues that should not be used for political speculations.

8. Relations with **Poland** are also in need of further strategic development, with the Euro-2012 soccer championship to be held in Poland and in Ukraine looming large. Other projects, such as Polish-Ukrainian-Lithuanian peacekeeping brigade, should continue despite provocations of certain political forces trying to destroy what has already been achieved in the recent years.

The recently started process of the border demarcation between **Ukraine and Moldova** and a number of bilateral cooperation agreements should be regarded as positive signs in Ukrainian-Moldovan relations that open further possibilities. Besides the growing potential of mutually beneficial trade, it can step up Ukraine's role in settling the Transdnistria conflict. Ukraine can not only be a guarantor of stability in this region but a leader in creating platforms for further talks at which ways and mechanisms of Transdnistria solution would be developed, as it has been suggested in the joint communique on the Transdnistria problem issued by the Presidents of Ukraine and of the Russian Federation.

Preservation of the territorial integrity of the Republic of Moldova must be a priority for Ukraine in this issue.

At the same time the dialogue should be encouraged with the Moldovan government as to the development of Ukrainian -Moldovan bilateral relations in various fields. The Eastern Partnership European initiative should become a platform to build relations between Ukraine and Moldova as it provides the framework to fund joint investment projects.

The **relations between Ukraine and Belarus** can be cited as an example of good neighborly interaction. Ukraine and Belarus demonstrate their ability to reach agreements in rather complicated international matters, and the completed process of ratification of the State Border Treaty is a good example. Full-fledged participation of Belarus in the Eastern Partnership Initiative can promote dynamic development of the whole region as the initiative encourages joint infrastructure projects, particularly to develop transport and energy infrastructures. Bearing in mind the nature of Ukraine's relations with Belarus and the EU, Ukraine can lead Belarus along a fast road of European integration and thus fully activate the energy transportation, trade and economic potential in its bilateral relations with Minsk.

Ukraine should continue developing its good neighborly relations with **Slovakia, Hungary, the Baltic States** and other European countries.

3.1.3. Development of mutually beneficial relations with the Russian Federation and CIS countries

1. Cooperation with the **Russian Federation** and other CIS countries is marked by mutual economic interests and a desire to form and support secure and stable relations and strong humanitarian links. Present-day challenges and global development trends make it necessary to revise attitudes to bilateral and multilateral cooperation with the said states.

The recent years have shown that underestimation of Russia's role and failure to carry out a full-scale dialogue ruins Ukraine's system of foreign relations and makes it impossible to effectuate Ukraine's practical integration in the European structures. We are convinced that **the future of Ukraine lies in an active introduction of European social standards and building up a strategic partnership with Russia on their basis.**

2. **Ukraine's policy regarding cooperation in the post-Soviet space and economic integration should be built with account of the country's course toward European integration and international legal obligations of Ukraine.** In view of this, forms of cooperation with the Customs Union will be conditioned by Ukraine's WTO membership and by establishment of the free trade area with the EU. The desired format for Ukraine's relations with the Customs Union countries would be the establishment of a free trade area without any exclusions or limitations. Ukraine will support the efforts of Russia, Belarus and Kazakhstan to join the WTO. The potential of economic cooperation with the CIS, and Russia in particular, can be realized through modernization of the existing bilateral and multilateral trade agreements in accordance with the needs of strengthening economic cooperation and with WTO norms. To achieve it, it is necessary to:
 - create conditions whereby the CIS countries, signatories of the Free Trade Area Agreement, would gradually reject tariff and non-tariff exclusions and limitations in free trade in accordance with the WTO standards and rules;
 - work out policies and programs for trade and economic cooperation with the priorities being clearly defined and sources of funding indicated, and adopt, on the national level, a plan of actions to carry out the CIS Strategy of Economic Development until 2020;
 - develop a program of economic cooperation between Ukraine and Russia that will include mutually beneficial top-priority projects in such fields as aviation, space exploration, shipbuilding, energy and fuel, chemical industry, and military industries, with established mechanisms of government funding and contributions of the international financial organizations.

The priority directions in the development of Ukraine's cooperation with the RF are the following:

- developing a concept for coordination and approximation of the national standards of Ukraine and Russia for the production of items of industrial and non-industrial use and the EU standards;
 - providing a mutually beneficial development of trade markets, expanding the presence of Ukraine in the Russian capital market and markets of goods and services by developing direct economic and trade relations at all the levels through specialization and cooperation of technologically linked companies producing high-tech products;
 - removing obstacles for mutual investments, provided Russian investments are regulated in relation to the industries and regions of Ukraine;
 - signing an inter-government agreement with involvement of ministries, other executive agencies, and Ukrainian and Russian Chambers of Commerce regulating procedures to protect economic entities at the markets of both countries from raiders and unfair partners;
3. Ukraine should better use the opportunities provided by **its membership in the CIS security institutions**, such as councils of foreign ministers, ministers of defense and internal affairs, and heads of security services. Their potential is underused in dealing with such issues as international terrorism and organized crime, and they can serve as the forums to discuss conflict situations that may emerge in relations among the CIS countries.

Ukraine's non-block policy can be helpful in removing excessive politicization in the Ukrainian-Russian relations and focusing instead on finding constructive solutions for regional security problems. The main aim of such cooperation is to create a new European security architecture which would take into account the interests of all the counties of the region, particularly those that are not members of military- political alliances.

The strategic partnership of Ukraine and Russia is the decisive factor of regional security. If this partnership is confirmed with a separate international legal document it will contribute to a better understanding of the essence of strategic partnership of these countries. It is worth resuming the discussions about signing a declaration of strategic partnership between Ukraine and Russia. Demarcation of the land border and delimitation of the sea section of the Ukraine-Russia border are the top priorities to complete the process of legal establishment of the state border of Ukraine and Russia.

An important and urgent task is to establish the conditions under which the **Russian Black Sea Navy** units have temporary bases in the territory of Ukraine. A corresponding sub-committee of the Ukraine-Russia Commission should draft mutually acceptable agreements to minimize the risks and remove any grounds for possible conflicts.

Another urgent task is to provide systemic and responsible government decisions in the area of Ukrainian-Russian relations and support their implementation. At the same time, intellectual support will be provided to the work of the Ukraine-Russia Inter-government Commission through involvement of the scientific and expert potential of the countries.

4. Energy is a field of mutual interest for Ukraine and its CIS partners, including the Central Asian countries. All the participants of the energy market are interested in maintaining a necessary level of energy supply security which is achieved through transparency of agreements and mechanisms of energy supply, consumption, and transportation.

The economic potential of Central Asia is not limited to deposits of natural gas and oil, and there are other available fields of cooperation besides the economic ones. Central Asian countries are important and active participants in combating international terrorism and drug trafficking. Ukraine will contribute its efforts to help them deal with these issues and therefore strengthen security for its own citizen.

5. One of the high-priority foreign-policy tasks for Ukraine in the near future is to look for effective mechanisms of developing regional cooperation and establishing effective bilateral cooperation with the countries of the **Northern Caucasus**. In view of the recent considerable changes in the political and security situation of that region, main efforts of the Ukrainian diplomacy should be directed at identifying the mechanisms of minimizing contradictions which in the past decades have accumulated among the countries of the area. Expansion of economic cooperation could be one of such mechanisms. An important role can be played by coordination of GUAM programs with corresponding cooperation programs within a broader association, the Organization of Black-Sea Economic Cooperation (OBSEC) and other sub-regional initiatives and programs.

6. Ukraine should update its **Black Sea regional policy**. In order to exploit the potential of regional cooperation, it is important for Ukraine to coordinate its efforts with the EU, Russia, Turkey and other actors in the areas of conflict management and energy security. Cooperation within the OBSEC framework will promote common approaches to providing security in the Black Sea region. Infrastructure projects, such as construction of a circumferential highway that would run around the Black Sea, can be put on the joint agenda. Joint plans to establish sea routes and make efficiency improvements in cargo shipping among OBSEC countries can be worked out. This cooperation is also useful inasmuch as it can help overcome the geopolitical tensions that arise in the Baltic-Black Sea-Caspian Sea region.

7. Strategic cooperation with **Turkey** acquires strategic importance, particularly in economic relations, in the development of the OBSEC, in joint actions against radical and extremist Islamist organizations or in dealing with the threats posed by international terrorism and organized crime.

Strengthening relations with Russia, the countries of the Black Sea and Caspian region and those of Central Asia will promote Ukraine's interests in the whole of Euro-Asia. Such countries as India and China that are gradually becoming the world economic leaders are interesting for Ukraine's economy and agriculture, as well as for high-technology Ukrainian projects.

Chapter 2.

SECURITY OF DEVELOPMENT

3.2.1. National security – the time of decisions

The critical weakening of Ukraine's government institutions, particularly those in the judicial system and law enforcement, has grown to become the biggest security threat for this country. The citizen's rights to fair trial are violated, and the general degradation of the court system has sunk to a record low. According to Ukraine's Ministry of Justice, about 70 percent of court rulings in civil, commercial, and administrative cases are not enforced.

Corruption and general criminalization of public authorities have become a major threat to Ukraine's national security. According to the Transparency International ratings, Ukraine took the 146th place in 2009 as to the level of corruption among the countries of the world, a drop from the 134th place it had occupied in 2008.

Reforms of Ukraine's armed forces and law enforcement agencies have boiled down to declarations and preparation of strategic papers but no action. Politicization of the army, law enforcement and security services has increased as the agencies were used to perform quite alien functions. The cuts in budget financing and corruption diminished the effectiveness of the agencies and even provoked their criminalization. A revealing fact – per capita financing of Ukraine's security sector is three times lower than that in Russia and about dozen times lower than in the NATO countries.

Ukraine has also been affected negatively by the consequences of globalization – illegal immigration, piracy, cyber-threats, transborder organized crime, and drug trafficking. Ukraine's security agencies are not adequately prepared to meet such challenges.

One of the most dramatic problems for Ukraine's humanitarian and security policies is caused by a severe crisis of national identity, which is a part of the general societal crisis. Such issues as language policies, historical memory, national and cultural priorities with which the national identity is associated, became so acute at the time of political confrontations that they could be described as a burgeoning crisis.

The current Ukrainian Administration should **introduce the idea of reconciliation to be absorbed by the public consciousness**. To achieve this, it is highly important to develop a strategy of overcoming the humanitarian crisis by forming a new model of national identity that uses the formula of "a political nation."

The difficult situation in the area of national security calls for development and implementation of a series of urgent measures that should slow down the development of negative tendencies and then stabilize the security environment in Ukraine. Ahead of anything else, it is the institutional capability of Ukraine as a whole and the security sector in particular that are in need of strengthening. Ukraine must have strong government institutions that exist for the citizens and not the other way round. In order to achieve it, the following should be done.

1. A single vertical chain of control should be restored in the country in general and in the security sector in particular, and the strategic chain of command should increase its capabilities and efficiency. In this context, transformation of the **National Security and Defense Council of Ukraine (NSDCU)** is crucial to dramatically improve its effectiveness. The renewed NSDCU should become a center where policies of security sector reforms are worked out rather than an institution that stands in opposition to the Cabinet and other governmental agencies. Positive experience of the second half of the 1990s can be used to introduce the mechanism of flexible working groups to deal with urgent problems.
2. Following the changes in the security sector and the priorities proclaimed by the President of Ukraine, **amendments to the Law of Ukraine On the Foundations of National Security, and**

changes in the National Security Strategy and Military Doctrine should be developed, and effective implementation mechanisms should be established.

3. Special attention should be paid to the **quality of the security sector human resources**. To achieve this, the procedures of personnel selection, training, and career advancement should be improved, morale and spirit should be raised, and material remuneration and people's motivation should be increased. This can be promoted through separation of administrative and political managerial positions in the security agencies and stability of administrative and military positions.
4. **Counter-corruption efforts should be stepped up**, particularly in the law-enforcement, security and armed services. Deregulation of the economy, procedures and regulations for government institutions should be introduced, anti-corruption evaluation of draft legal acts should be conducted, and the principle of inevitability of punishment should be implemented. Amendments to the anti-corruption laws must be introduced and enacted.
6. The **conceptual documents for security sector reform** which were adopted during 2005-2009 **should be revised**. New concepts and programs for security sector development should be developed for the President's term of office following the new version of the National Security Strategy. A new code of criminal procedures should be adopted, as well as new versions of the laws on police, security service, government security guards, and internal troops. The balance should be maintained between the interests of citizens and the society as to access to information on the one hand, and in interests of the state in protecting state secrets on the other, and the laws on protection of states secrets should be improved by adopting a law *On State Secrets*.
7. Approaches to **budget policies in the field of national security and defense should be radically changed** in accordance with the experience gained in 2003-2004 and with the European practices. The current practice of determining budget allocations for the security sector on the basis of personnel strength of the armed and security forces makes it impossible to implement wide-ranging reforms and stimulate development.
8. **Up-to-date information technologies should be introduced in the government agencies at an accelerated pace**. For example, the draft National Program *Electronic Ukraine* which was developed in 2003-2004 should be re-launched. A special attention should be given to the law enforcement and intelligence agencies, and compatibility of the information systems used should be secured. Priority should be given to the program Unified Computer Information System for law-enforcement agencies as a tool in combating crime.

Consistent and purposeful introduction of the measures suggested above can significantly improve the potential of the security sector of Ukraine and strengthen its national security. Specific measures to be implemented can be identified on the basis of the above suggestions with consideration of the intellectual, personal, financial and material resources, as well as internal and external political conditions.

3.2.2. Defense Reforms

1. **Ukraine's Armed Forces and the defense industry are facing a profound depression**. The terms of serviceability of military equipment are expiring; inadequate funding and contradictory policies of the recent years have brought the armed forces to a critical edge – two thirds of military aircraft cannot be flown, and about half of the Ukrainian Navy and support vessels cannot perform any operations at sea. Rearmament of Ukraine's Armed Forces with new equipment at the cutting edge of military technology is complicated by the absence of closed circles of their production in the military-industrial complex of Ukraine.

The process of reforming Ukraine's Armed Forces has not been properly financed in the recent years. Most of the resources that were allocated were used for personnel maintenance. The funding of the Armed Forces was badly affected by the financial crisis which also caused a number of social problems to rise. The poor funding has practically disrupted the implementation of the National Program for Development of Ukraine's Armed Forces in the years 2006-2010. The pro-

gram needs to be reviewed to take into consideration the newly declared non-block policy and the reduced budget financing of Ukraine's Armed Forces.

2. Ukraine's Armed Forces' ability to perform their missions is limited. It can be explained by the fact that the armaments and military equipment are obsolescent and physically depreciated, and the amounts of money allocated for military training are not sufficient. Besides, military training cannot produce desirable results in the absence of appropriate military equipment. The training situation is the worst in the units which are supposed to possess high-precision electronic equipment, i.e. aviation complexes, air defense and radio-electronic warfare systems, and the Navy.

Under the current circumstances, main efforts in the defense sector must be concentrated on developing the forces that are capable of taking on modern threats and challenges. A comprehensive program will be developed to train the Joint Rapid Reaction Force within Ukraine's Armed Forces. The development of JRRF will get the bulk of the financial, material and other resources.

The new defense policy must take into account the following:

1. In the process of reforming Ukraine's Armed Forces it is necessary to actively move on to the creation of deployable military units which are capable of conducting warfare in with low or median intensity conflicts; at the same time, joint military training with partners and allies must be conducted and international obligations must be honored. The reform of Ukraine's Armed Forces must be based on the principle of sufficient defense capabilities.
2. It is necessary to preserve and maintain the development of the personnel potential of Ukraine's Armed Forces. The policies of social support for the military personnel of Ukraine's Armed Forces and other military units should be designed to fulfill this task. Transition to professional army remains a priority.
3. Participation in peace-keeping operations remains an important task for Ukraine's security sector in dealing with international crises that may pose a threat to international stability and security. Conditions and tasks for such missions must be defined in corresponding documents at the national level, e.g., the Laws of Ukraine *On Defense of Ukraine*, *On Armed Forces of Ukraine*, in *The Military Doctrine*, and others.
4. Funding of Ukraine's Armed Forces must be carefully worked out with means allocated for particular items of expenses. This primarily concerns procurement of armaments and military equipment, particularly the ones made in Ukraine.
5. A realistic analysis of the needs of Ukraine's Armed Forces for re-armament and its best ways should be performed. The focus should be on the maximum possible use of intellectual and industrial potential of Ukraine's defense industry, which will require a reassessment of development priorities and adjustments in corresponding programs. At the same time, military and technical cooperation with the leading countries of the world should be stepped up to obtain new technologies. Among the priorities of such cooperation are:
 - procurement of the latest technologies and licenses for producing up-to-date military equipment at Ukrainian factories;
 - joint development and production of up-to-date military equipment with other countries.
6. It is necessary to free the Ministry of Defense of Ukraine from alien functions and tasks, such as providing servicemen with accommodation, selling land, property, surplus military equipment, and disposal of ammunition and obsolete equipment.
7. It is necessary to rationalize the structure of the defense budget and considerably increase allocations to support technical modernization.
8. Democratic civil control to be further introduced in Ukraine entails:
 - effective and transparent interaction between civilian organizations – institutions of civil society, and security sector agencies;
 - improved procedures of defense budget development and implementation so as to create the necessary conditions for transparency and maximum openness of this important part of the budget process.

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