

Dykha Mariia,

candidate economic sciences, associate professor, Khmelnytskyi National University

World experience of economic reforms and possibility of their realization in Ukraine

The article is devoted to the most important directions of reforms in Central and Eastern Europe. The modern state of economy of Ukraine is considered in the article. Criteria of successful economic reforms are allocated: compliance to long-term interests of the country takes into account a universal vector of development, adequacy of reforms to social conditions, and the accounting of social interests of the majority of the population. Priority directions of development of Ukraine are certain.

Keywords: economic reform, economic reforms of the countries of Central and Eastern Europe, economics of Ukraine, investment climate of Ukraine, GDP growth, the modern economy growth in Ukraine, the human potential development, and the direction of economic reforms in Ukraine.

Speed of economic reforms in Ukraine and transition to steady growth rates depends on a number of the factors inherent in transformational economy. Among them, are the evolution of macroeconomic policy and development of the national markets of capital, political stability, existence of the corresponding lawful schemes of managing, enterprise environment, and development of social and economic infrastructure.

A huge amount of literature is devoted to economic reforms. Among domestic and foreign scientists who devoted the works of research to problems of economic reforms, those who should be noted include the such foreign scientists: D. Berch, A. de Gius, J. Dunning, R. Kaplinski, R. Coase, R. Ollio, P. Peckar, M. Porter, A. Rugman, F. Fukuyama, S. Hymer, E. Helpman and others. The study of economic reforms of the countries of Central and Eastern Europe have been made by following domestic scientists: A. Amosh, V. Geez, Y. Kozak, V. Novizky, Y. Pahomov, L. Rudenko, E. Saveliev, O. Shnirkov, A. Philipenko, G. Chizhikov and others.

The objective of the article is an assessment of the worlds experience in reforming the economy, in experience gained from reforms, in achievement of understanding of why reform is necessary, and why it is impossible to carry out economic reforms in Ukraine.

The methodological basis of the article is represented by dialectic methods of scientific knowledge, and also by special methods of researches that are based on a modern scientific bases of economic and administrative sciences.

First of all, what is the definition of? The Latin verb of «reformato», in a political context, meant «to return in a former condition». The French equivalent, «la re'forme» is recorded in the dictionary of the French academy of 1694 [5]. In traditional societies innovations are treated with suspicion. The bases for changes were looked for in customs of ancestors. It is possible to assume that this point of view was based on experience of numerous unsuccessful social experiments. The modern sense of the word «reform» – «transformation for the purpose of improvement» – gained dominating value gradually, in the process of formation of modern dynamic social systems.

Reform is this purposeful change of institutes, assuming presence of an economic system of agents who develop and realize a transformation plan. Reforms can be opposed to spontaneous evolution when the role of the state is reduced to formal fixing of the developed standards of behavior. The elementary idea underlying many reforms, consisted in transplantation (loan) of institutes of the advanced countries. Quite often attempts of transplantation didn't lead to success. The large-scale reforms which were carried out became apogee of failures in the countries of the former socialist camp, and also in the countries of Africa and Latin America in the 1990 s.

These reforms showed, with all evidence, the need for a developed theory of institutional economic changes, and at the same time showed, that the present condition is unsatisfactory. After «decades of reforms» it is difficult to characterize results differently than being one of the largest economic accidents of the twentieth century. In seven years, from 1992 to 1998, twenty six transitional economies of Eastern Europe and the former republics of the Soviet Union lost in the sum more than 25% of the gross domestic product. The majority of the countries didn't return to prereform level at the end of the ten-year period. The Russian gross domestic product in 2000 was about 70% from level of 1991, and in Ukraine ever less [8].

All developing countries seek to catch up to developed and for this purpose carry out reforms. However, for the last 60 years only very few of them managed to achieve success. Strictly speaking, only East Asian countries managed to carry out this task: Japan, Korea, Taiwan, Hong Kong, Singapore. Considerable breakthrough was made, however, by Portugal, Spain, Iceland and Ireland. The vast majority of the other developing countries failed.

Economic reforms of the countries of Central and Eastern Europe to market economy began with a command management system in 1989–1991. In each country that was carrying out radical changes in the politics and economics, there was a specific feature. However, in all distinctions over the certain countries, basic elements were established:

- 1) macroeconomic stabilization and situation control in economy: the governments of the countries accepted rigid stabilization programs when fighting against growing inflation, on introduction of a new tax policy for decreasing budget deficits and on decreasing debt owed to international funding to other countries;

2) introduction of market mechanisms and the market relations in the economy of the countries, and also transition to market formation of the prices: these conditions were introduced by liberalization of the prices and trade between all partners, liberalization of the market of labor and foreign economic activity, reforming of a banking and financial system, and also refusal of a command management system of deliveries of production.

According the undertaken reforms in the majority of the countries of Central and Eastern Europe, in some years after the beginning of transformations the first lines of market economy began to appear. The economic situation of these countries began to gain more order, stable character and the first positive results of reforms.

So, the share of a private property sharply increased both at the expense of privatization of the state property, and at the expense of development of business and expansion of the private sector. The structure of property existing previously was radically changed by liquidation of monopolies, reform of branches, change of the relations of property, and also introduction of procedure of bankruptcy.

The state refused the former dictatorship within the command system and considerably reconsidered the role in economy. Legislature, institutes, the state monopolies and the legislation underwent reforms. The state began to use indirect regulation of the economy in a credit policy, and in tax and budgetary regulation.

The main stages of the transition period in all countries of Central and Eastern Europe were:

- macroeconomic stabilization by a stop of decline in production and the solution of problems of internal and external debt;
- further reform of the prices and trade was carried out, convertibility of national currency was entered, the prices were brought into accord with costs of production at the level of the world prices;
- then reform of tax and social systems was carried out, businessmen received tax incentives, and the population was protected from unemployment threat [7].

However, the first results of reforms didn't justify initial forecasts. Decline in production at the beginning of the period of transformations was very essential, and freedom of pricing caused significant increase in the prices at simultaneous decrease in the income of the population; there was a mass unemployment, and all former communications within the Council of Economic Mutual aid failed. It was necessary to adapt in the shortest terms to new conditions of managing. Sources of creation of the program of reforms had western advisers, mainly specialists of the International Monetary Fund, who made the recommendations to the countries of Central and Eastern Europe and supervised a course of reforms.

The majority of the countries used so-called «shock therapy» – the accelerated mode of transformations and reforms.

The following processes became results of the first years of carrying out «shock therapy» in the countries of Central and Eastern Europe:

- first of all, the deep decline in production was bigger than was expected (recession of industrial production reached 20% a year), and even today not all countries have reached their former levels of production in some areas of the economy;

- disintegration of former economic relations within the Council of Mutual Economic aid need new adjustment, and reorientation of a sales market of production in the countries of Central and Eastern Europe;

- structural unemployment owing to elimination of socialist «excess employment»;

- the steady inflation, which rates decreased, but all the same remain high when compared to the leading developed countries;

- superficial privatization: the privatized enterprises couldn't adapt quickly to new market mechanisms, didn't play a part assigned to them, and tax incentives opposite of tax inflation of expenses were characteristic. Privatization didn't radically change behavior of new owners who could not seize at once a management skill of the business.

It is characteristic that inflation in the countries of Central and Eastern Europe appeared impossible to explain with standard theories of periodic jumps in prices of goods and services; inflationary; expectations were characteristic even at stability of a course of national currencies of the East European countries.

The bank crisis developed because commercial banks could not at once adapt to new conditions of managing, at the beginning giving out poor credits, and also allowing various abuses and corruption.

Deception of public expectations appeared the most notable negative consequence of economic transformations in the countries of Central and Eastern Europe. In spite of the fact that the process of long and gradual society were intended for immediate results and fast achievement of a standard of living. Actually, the standard of living of the population of the countries of Central and Eastern Europe decreased. Having been disappointed in former illusions concerning success of market transformations, socialist ideas and nostalgia on former times became again popular in that part of the population which was unfortunate. Therefore, adherents of a socialist way of development wanted to change the anti-communistic governments in a number of the states of Central and Eastern Europe during the second a half of the first 90 years of Eastern-Block power. This process also coincided with the falling of popularity of neoconservatives in the West and a

victory of social democrats in a number of countries of Western Europe. However, the general strategic line of market reforms in the countries of Central and Eastern Europe was unshakable.

Reforms in the countries of Central and Eastern Europe became irreversible, and their negative consequences served as a good lesson which allowed correction in the process of market transformations. It is necessary to refer to the positive results of the reforms:

- elimination of deficiency of goods and services and their availability to the population;
- activization and liberalization of business activity and restoration of the private sector of the economy;
- creation of a democratically controlled system of economy and continuation of a market rate;
- non-interference of the state in the process of adaption of business solutions at microlevel, and concentration of the state on tasks of macroeconomic regulation;
- the beginning of new economic integration of the region in the system of world economic communications (development of trade, a scientific and technical exchange, interaction in the investment sphere with the leading countries of the world, and to the states of Western Europe, revision of the relations with Russia and CIS countries in favor of mutually beneficial cooperation on the market principles), adjustment of new economic relations between the countries of Central and Eastern Europe.

In 1994, reform started giving a return that reflected favorable dynamics of macroeconomic indicators of the countries of Central and Eastern Europe. Revival, of economic growth become characteristic of practically all countries of the region. Fast rates of foreign trade developed. Internal demand and internal investments becomes one of the most important factors of growth. The essential contribution to this growth is made by the private sector, in which shares considerably increased. So, in the economy of Poland and Hungary the share of the private sector increased from 30% to two thirds, and at the moment exceeds 90% [9].

The structure of economy of the countries of Central and Eastern Europe gradually changed. There was its reorientation. If in previous years it was focused on agriculture, production of raw materials and production of a low degree of science intensity, now the main place is taken by the release of a competitive finished-industrial output. Rapid rates in the countries of the region have developed both the sector of non-material production and a services sector: tourism (Czech Republic, Hungary, Bulgaria), and finance (Latvia). Thus, in the countries of Central and Eastern Europe, transition to a new model of intensive development, at the heart of which the market economy of post-industrial type lies, is carried out. Recognition of achievements of the countries of Central and Eastern Europe, as a way of carrying out market transformations, was accepted in 1995–1996 in the leading countries of the region (The Czech Republic, Hungary and Poland), in the

Organization for Economic Cooperation and Development, and also in the EU associated membership of a number of the countries of Central and Eastern Europe.

Considering the problem of economic development in Ukraine it is necessary to state that during the 20-year period (including positive news that Ukraine has become a market economy state) many changes have taken place. However, in accordance with the very active process of market reforms, privatization, provision of foreign economic openness of the country, etc, the issue of ensuring conditions for sustainable economic development has not been conclusively resolved. During the period of 1990–2010 GDP per capita in Ukraine decreased by 27%. According to different estimates [2; 3] it totals 14,3– 19,5% of that seen in U.S., and is substantially lower than the same index in the most post-socialistic countries of Central and Eastern Europe, former USSR (Slovenia, Czech Republic, Hungary, Poland, Baltic countries, etc.).

The new bout of global economic instability and the eurozone crisis have had a moderate impact on the countries of Central and Eastern Europe. The economy of Belarus has been recovering from the balance of payments crisis as domestic producers benefited from real exchange rate devaluation. Azerbaijan's non-oil sector has expanded, but only partly compensating for the ongoing oil sector decline. Georgia's broad-based recovery has continued at a fast pace. The economies of Armenia and Moldova have demonstrated some resilience so far, in part, because of their lower integration in to the European market. The region's vulnerabilities remain significant because of reliance on external demand to support growth (in particular in the EU and Russia), terms of trade pressures (as all countries except Azerbaijan are net energy importers, and the Caucasus countries depend on imports of foodstuffs), and volatility of remittances (Armenia, Georgia and Moldova). Risks to the outlook are related to developments in external demand, commodity prices, and stability of the domestic, and, in some cases, broader European financial sectors, as well as domestic policy slippages, which may in some cases threaten needed international support.

Ukraine has been affected by lower external demand and tight financial conditions, compensated to some extent by buoyant domestic consumption. Ukraine's economy has been affected by the new wave of instability in the eurozone. Lower external demand and subdued steel prices led to a contraction of the machine-building and steel sectors. Buoyant consumer demand, fuelled by rising real wages, has helped maintain growth in the retail sector. Although the authorities implemented some of the conditions under the 2010 IMF programme (including parametric pension reform), critical measures necessary to stabilise the gas sector, including tariff increases, continue to face political resistance. As the international environment stabilised in recent weeks, the authorities have been able to relax monetary policy somewhat. The authorities have maintained a tight fiscal policy in anticipation of large external debt payments later this year,

although the recently adopted package of social expenditures may increase fiscal pressures. As Ukraine's economy is very much exposed to the eurozone, developments in the EU will remain an important factor for the country's growth and economic stability in the future.

GDP growth in Ukraine is 5,2% in 2011; it decreased in 2012 on 2,5%, and according to experts it will increase to 4,0% in 2013 (Table 1).

Table 1. Growth in real GDP, in %

Country	2011	2012	2013
Central Europe and the Baltic states			
Croatia	0,1	0,6	1,7
Estonia	7,6	2,4	3,4
Hungary	1,7	1,0	0,7
Latvia	5,5	3,5	3,3
Lithuania	5,9	2,8	2,9
Poland	4,3	2,7	2,9
Slovak Republic	3,3	2,2	2,6
Slovenia	0,2	2,0	1,1
South-Eastern Europe			
Albania	3,1	1,2	1,8
Bosnia and Herzegovina	1,8	0,4	0,6
Bulgaria	1,7	1,2	2,5
FYR Macedonia	3,0	1,3	2,6
Montenegro	2,7	0,4	1,6
Romania	2,5	1,2	2,6
Serbia	1,6	0,1	2,6
Eastern Europe and the Caucasus			
Armenia	4,7	4,0	4,0
Azerbaijan	0,1	3,5	3,0
Belarus	5,3	2,5	3,0
Georgia	7,0	5,5	5,5
Moldova	6,4	4,0	4,5
Ukraine	5,2	2,5	4,0
Russia	4,3	4,2	4,3
Central Asia			
Kazakhstan	7,5	5,0	6,0
Kyrgyz Republic	5,7	1,0	7,0
Mongolia	17,3	14,0	16,0
Tajikistan	7,4	4,0	5,0
Turkmenistan	14,7	10,0	10,0
Uzbekistan	8,3	7,0	7,0

Source: [10]

Delay of the government of Ukraine with realization of reforms led to deterioration of an assessment of investment climate from 750 foreign companies working in Ukraine. They complained of difficult administration and problems with customs registration. Preservation of the current situation can cause further decrease in appeal of the Ukrainian economy for businessmen,

the businessmen said. Following the results of 2010, the index decreased from 3,25 to 3,2 points (on a 5-mark scale) [6]. It pays off on the basis of a poll of the members of the European association business (about 750 companies) which is carried out quarterly since the crisis beginning. The previous three researches of the European business association showed improvement in the investment climate, in which indicator, reached a maximum level in 2009. Decrease in estimates is caused by prolonged expectation of investors in the reforms announced by the power.

One of the key indicators of an index shows to lack of reforms – an assessment of the current investment climate. Following the results of 2010, it decreased from 3,8 to 3,6 points, and from 3,4 to 3,2 points, drop in the assessment of investment climate in 2011 [6].

For improvement of investment climate of Ukraine it is necessary to begin pension reform.

A law on pension reform was accepted by the Verkhovna Rada of Ukraine on July, 8 in 2011. Its substantive provisions were: 1) an increase of retirement age of women is from 55 to 60; 2) increase of insurance experience for the receipt of minimum pension on 10 years more – to 35 years for men and 25 years for women; 3) limitation of maximal volume of pension (presently 7640 UAH or \$1000); 4) introduction (from 2013) of the personal accumulation accounts of future pensioners (who will not be 35 years old at that time), on which an employer is monthly under an obligation to translate part of extra charges in a pay from 2% in the first year to 7% beginning from sixth.

In introduction of the accumulation pension system, according to which the most reliable and substantial method of accumulation of money on old age is an account in non-state pension fund, was too a small for a state pension.

In the developed countries of the world such system use over 70% of the population, providing a method of pension which makes 80–90% of the volume of earning. Ukraine today searches transition ways from a solidarity pension system, which remained as inheritance from soviet times, to the accumulation pension system (Table 2).

Table 2. Life expectancy and pensions in some countries, 2010

Country	Pension age/Life expectancy		Pension (\$)	
	Male	Female	Minimal	Average
Ukraine	60/62,79	55/74,75	89	125
Russia	60/59,80	55/73,17	129	244
Poland	65/71,3	60/79,8	235	520
Germany	65/77,82	65/82,44	800	1085
USA	65/75,92	65/80,93	800	1100
Japan	70/78,96	70/85,72	500	700
China	60/71,3	50/74,8	47	90

Source: [1].

The modern economic growth in Ukraine must be strategically aimed at development of human potential; that is why efficiency is estimated, not only on the indexes of profits by populations, but also with such factors as life-span, percent of literacy among a grown population, level of mass accessible education and other variables.

In the report of the UN Development Programme, «The real wealth of nations: the ways of human development» [4] Ukraine was called a country with high level of human development (mainly due to as high educational component of human capital) – in 2010 HDI (Human Development Index) was equal to 6,535 (Table 3).

Table 3. Place in the world according the UN index of human potential development of Central and East Europe countries, 2010

Country	Place	Index
Slovenia	29	25,857
Slovak Republic	31	21,658
Estonia	34	17,168
Hungary	36	17,472
Poland	41	17,803
Lithuania	44	14,824
Latvia	48	12,944
Romania	50	12,844
Croatia	51	16,389
Bulgaria	58	11,139
Azerbaijan	67	8,747
Bosnia and Herzegovina	68	8,222
Ukraine	69	6,535
FYR Macedonia	71	9,487
Georgia	74	4,902
Armenia	76	5,495
Moldova	99	3,149

Source: [11]

Although the national economy grew in general prospectly, progress in the field of human development failed accompanied it. Instead the opposite occurred often with deepening of economic inequality, restriction of democracy, and destruction of the environment. This problem resulted in the conclusion that the economy as it is growing is not sustainable, and can-not be supported much longer. To be permanent, the economic growth must be carried out through growth of knowledges and abilities of workers and enhancement of their effective use in the facilitation of private business, and finally, by democratization of management at all levels. Lags in the decision of social problems well sharply brake the economy that is growing in both the separate country and in humanity as a whole. Presently, it failed to pass in even a single country, and this one-sided economic development sbwed human development to the degree, in which human and economy development should mutually be instrumental to each other.

The direction of economic reforms in Ukraine is defined, – the president of the American Chamber of Commerce in Ukraine, Jorge Zukoski, considers. – President Victor Yanukovich prepared the general economic reform: there is a partnership with the successful countries, there is a political stability in the country, otherwise, there is an opportunity to carry out legitimate regulatory reform for improvement of primary branches of the economy of Ukraine. The international professional institutions make practically the same recommendations that are declared by the authorities concerning reforms. Therefore, it is necessary to realize an economic reform at national level. Experts point to reforms necessary for Ukraine: to corruption, to protect intellectual property, to develop innovations, to pass from consumption to production of competitive products, to strengthen the rule of law, and to increase transparency and stability in the investment environment.

The Ukrainian economy faces a choice: the European Union or destroyed industry, as in the Baltic where the industrial enterprises collapsed as one of colonial factors, or a way of Belarus – with a continued technological and industrial potential, and a complete dependence from Moscow.

According to the author, Ukraine has to invent its own way that would allow it to keep scientific and technological potential, and at the same time would provide economic and political independence. Supporters of eurointegration fairly say that the Ukrainian technologies are outdated. However, making the minimum technological successes, it is simpler to construct an innovative model of the economy; after all, machines and technologies are easier to replace than to create capacities from zero. The main thing: even at old plants the most valuable resource – technical shots and skilled workers remains. They should not be and lost, and building the capacity of polytechnical educational institutions should be a number one for task Ukraine.

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