

**Regionalization and Globalization**

Alla MELNYK,  
Victoria ADAMYK

**REGIONAL POLICY OF THE EU AND UKRAINE  
UNDER THE DEEPENING CONTRADICTIONS  
OF GLOBALIZATION****Abstract**

The problem of the EU regional policy modernization under the conditions of globalization processes activation is studied. The influence of global factors and changes in the EU regional policy is determined produced on the transformation of the regional policy in Ukraine. In the context of the development of the Ukraine's regional policy the problems are defined of economic development and welfare of the citizens in the regions of Ukraine, also the areas of cooperation between Ukraine and the EU are outlined.

**Key words:**

Regional policy, globalization, regional economic development, income convergence, real convergence, inter-regional cooperation

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Melnyk Alla, Dr. of Economic Sciences, Prof., Ternopil National Economic University, Ukraine.  
Adamyk Victoria, Cand. of Economic Sciences, Assist. Prof., National University «Lvivska Politechnika», Ukraine.

## Introduction

The activation of world globalization processes, into which all countries are integrated, makes each individual country face the necessity for strategic rethinking of their development philosophy to find resources for economic growth and solution of social problems. At the stage of the global economic crisis exacerbation, under conditions of acute shortage of financial resources, the conducting of organic changes at the regional level may become one of self-sufficient sources for the economic and social development. In this context the European practice of the regional development solution is noteworthy, also the modernization of regional policy with regard to the impact of global factors, assessment of opportunities for further implementation of international practices and standards in accordance with the priorities of Ukraine's policy of the European integration.

A number of works by foreign and national scientists are dedicated to the problems of regional development in the EU and Ukraine, namely: Jacques Miller, D. Bill, J. Mark, P. Hildrit, I. Hladii, W. Chuzhikov, N. Mikula, A. Mokii, O. Reut, M. Ombrebalsky, M. Dolishnii, L. Prokopenko, and others. Though the issues affecting the regions, the establishment of regional policy in the EU and Ukraine, mega-regional contradictions within the common European economic space are touched upon in the economic literature, nevertheless, scarce attention is paid to assessing the challenges generated by modern processes in the global environment, to risks diagnosis of regional development in Ukraine, which actualizes the proposed theme for scientific research.

## The EU Regional Policy: Factors of Development and Modernization

The EU regional policy was formed and implemented under the influence of globalization factors, the increasing complexity of the «regionalism – globalism» relationship, trans-nationalization of the economy, peculiarities of nowadays global market regionalization, and the formation of a new model of spatial world market architectonics.

The European Union, which like the European market was the result of those effects, is an example of a regionally-centrist development model, that originally united countries with the developed market economies, that gradually expanding market joined the countries with medium and low levels of develop-

ment. Meanwhile, the European Union is seen as the practice in structuring of transnational space [1, p. 111].

This is because in the past two decades two parallel processes occurred in the European Union, i. e. formal regionalization, within the administrative-territorial structure; informal regionalization, which is due to the transformation of the global space, forming the poles of economic growth, and distinguishing regional markets. As a result, three types of regional economic systems have been formed in the EU: a) formal, standardized, b) functional (concentrated around a focal center, i. e. a large company, a shopping center, a research center), c) perceptive (determined by human attitude towards the territories). Four multifunctional centers have been created in Europe whose economies are characterized by diversified structure, i. e. – «Big London», «Amsterdam – Rotterdam» region, «Big Frankfurt» with the Rhine surrounding territories,» and «Big Milan» [2, p. 320].

The discussion of «Europe of regions» – «Europe of market» resulted in the adoption of the EU regional policy aimed at supporting the administrative and territorial regionalization, promoting socio-economic convergence of nations and regions that is leveling of territorial disparities through supporting of the uncompetitive regions.

Its main lines were identified as follows: promoting structural transformation and development of depressed territories (problem regions) (where GDP per capita over the past 3 years made < 75% on average – Greece, Ireland, Eastern regions of Germany, etc.), financial assistance to the regions with the stagnant industry (old industrial regions); combating long-term unemployment, support of employment initiatives; financing of agricultural areas and accelerating of structural restructuring of agriculture; assistance to under-populated regions, where the population density is not more than 8 people. per 1 km<sup>2</sup> (Sweden, Finland); decrease of differentiation in the levels of economic development of the new EU member countries (countries of Central and Eastern Europe).

To facilitate statistical analysis of backward regions there was developed a Unified Classification System – NUTS (Nomenclature of Territorial Units for Statistical Purposes). Regional Policy is the second largest item of expenditures in the EU budget after the Common Agricultural Policy, and not the least significant activity of the European Union. In 2007–2013, the budget amount on the EU regional policy is €348 billion, including €278 billion for the structural funds and €70 billion for the Cohesion Fund [3], although the scientists are paying attention to the poor flexibility of these financial institutions [4]

The core of the EU regional policy is the principle of subsidiarity, the meaning of which is defined by two bases of the EU functioning, namely: social doctrine of Catholicism and the principle of proportionality, which is the ability to choose the level of the decision and its implementation in the area of mixed competence. The EU takes the required decisions and actions on the suprana-

tional level only in case when they can not be properly carried out by the member states [5, p. 86–88]. However, the countries themselves are able to solve problems not only at national but also at regional and local levels. In other words, it implies the implementation of the Concept of multilevel governance in the EU.

The interaction of regional authorities with the EU institutions and bodies is organized in a different way. It is carried out both, indirectly and directly in the course of planning and implementation of the EU regional policy through the Committee of the Regions, during the annual Cohesion Forum held by the European Commission in the framework of the Brussels Offices of the Regions. Formed in 1994, the Committee of the Regions which is a special advisory body composed of representatives of local and regional authorities of the member states, replaced the Advisory Council on the regional and local authorities created in 1988 by the European Commission, whose task was to provide advice in the formation and implementation of regional policy. The Committee of the Regions, basing its activities on the principles of subsidiarity, and as close as possible approach to the interests and needs of the EU citizens, as well as partnership in governing of various levels in the process of all-European decision-making, to some extent, coordinates work in the field of regional policy.

The Lisbon Treaty [6] produced a certain impact on the replacement of the institutional architectonics of the EU regional policy. The Lisbon Treaty did not recognize the Committee of the Regions as one of the elements of the EU institutional mechanism. However, the Committee was able to seek an appeal to the Court of the European Union to protect its prerogatives in violation of the subsidiarity principle.

Despite positive steps towards institutionalization of the EU regional policy, its measures aimed at economic development equalization have not fully achieved the set goals. Primarily, this is because the same contradictions of globalization are inherent to the EU, as to the world as a whole, i.e. irregularity, asynchronous, and disproportionality. As noted by D. Lukianenko, practically all asymmetries of development, which deepened under conditions of the EU enlargement, are inherent to the Euro-centrism as a modern integration process. [4, p. 32].

These contradictions intensified in the last decade, and especially during the crisis of 2008-2009. However, the issues concerning regional policy have not found a satisfactory evaluation in scientific researches. Our analysis of foreign and domestic research scientists on the differences and tendencies of globalization leads to the conclusion that the most significant impact on the development of the regions of the EU member states, as well as of Ukraine, are the following:

- 1) new trans-nationality, manifestations of which is the formation of production networks, and creation of production alliances;
- 2) the problem of resource constraints for the regions' economies;

- 3) the growing influence of flows of capitals, goods, migrant workers on the traditional and comparative advantages of countries and regions;
- 4) deepening of structural asymmetries in the processes of production factors allocation in national and regional economies;
- 5) the emergence of powerful redistributive conflicts because of limited resources;
- 6) the increasing power of non-state subjects;
- 7) refusal from the use of oil, gas, and transition to new energy carriers;
- 8) the presence of global financial imbalances, the implementation of monetary reforms, the need to support the single European currency;
- 9) the emergence of risks of slow cyclic development;
- 10) post-crisis and crisis orientation strategies to restore economic growth, despite the neglect of strategic goals and objectives of improving the welfare and quality of life [7, p. 173–190].

The development of the regions and, consequently, the EU regional policy is influenced by such mega-trends as follows: increased pressure of multinational companies to national and regional markets, increasing integration and partnership relations between competing actors for successful functioning at the market; activation of traditional industries convergence; the formation of super-powerful corporate structures in the new branch-wise organization; growing disparities in the concentration of capital; the competitiveness aggravation, and so on.

In particular, the rapid growth of the scale of transnational exchanges, according to K. Voronov, will increase the pressure on the EU externally, and will impede the maintaining of social stability [8, p. 63]. The «Euro-zone Crisis» indicates the incomplete regional integration in Europe. The commodity market appears to be not the only one, since national level of taxes, technical, sanitary and other standards are not agreed, privileges of national companies to obtain government contracts are not eliminated, since market exchange rates inconsistently fluctuate, the labor market remains incomplete without the consent of social and regional policies of member-countries, and of the mutual recognition of diplomas. Crisis-proof measures required increasing budget spending to support the banking system and to stimulate demand. As a result, large Euro-zone countries built up debts. In particular, in 2012 the debt of the consolidated Netherlands government reached up to 64%, Spain – 71%, Germany – 81.1%, France – 86.8%, Portugal – 107.4%, Ireland – 117.9%, Italy – 119.8%, and Greece – 166.1% of GDP [9, p. 26]. The established European Financial Stability Facility (EFSF) credited a number of the EU countries till 2013, and then the European Stabilization Mechanism (ESM) will be used. According to economists' forecasts the two-tier structure, consisting of a «core», supported by a single currency – the euro and

the peripheries may be fixed in the European Union under the continuing crisis phenomena [10, p. 16].

Ultimately, we can state several major problems of the European space, namely: the uneven development of the regions (countries) (e. g. Germany – Greece); lack of fiscal consolidation (in particular, positions difference, the discussion on the EU budget policy); unresolved fiscal problems of individual countries; institutional problems associated with the lack of a single coordination center; the struggle of contradictions between the desire for centralization (defined by V. Heiijets), and the attempts to obtain regional autonomy [11, p. 2].

These and other EU problems complicate the redistribution mechanism in the regional policy aimed at leveling, and they actualize the application of the «new regionalism» to support the competitiveness of regions. In such circumstances, the regional policy should be seen, and that has already taken place, not only as a way to compensate for regional disparities, but as the competition policy and comprehensive policy of development. It updates the following definition: the regional policy is a policy that provides for the creation of conditions that would allow regions to fully use the existing potential to gain competitive advantages.

The main problems of regional development of the European Union have a «territorial» dimension, which requires appropriate actions at the regional and local levels. With deepening of the global contradictions in the EU the need is actualized to find solutions to these problems both by means of internal (organizational, institutional, informational, and financial) resources and external ones. This is one of the reasons that after the expansion the EU regional policy includes two components, namely: internal regional policy, which covers the EU member states, ensures cooperation between the regions across internal EU borders, and the EU regional policy, which provides for cooperation with the countries outside the EU.

It was just the latter that the regional policy towards Ukraine was pursued, which is integrated into the European regional process through the European Neighborhood Policy (ENP). The «Neighborhood Policy» is based on two pillars, i. e.: the coordination of general principles and differentiated approach that takes into account the geopolitical and geo-economic situation of the country, and its participation in the EU programs on cross-border and transnational cooperation. While implementing such a policy, the EU proposed a new financial program to support the partner countries that is the European Neighborhood and Partnership Instrument. Since 2007, it replaced the TACIS Programs (for Eastern European countries) and the MEDA (for the Mediterranean countries). In fact, the neighborhood policy moved from the policy of changes in the partner countries to the policy of using administrative and institutional capacity in these countries.

## **Regional Development and Regional Policy in Ukraine: Problems of Institutionalization and Financial Support**

For Ukraine, the problems of regional development, regional policy adaptation to the challenges of globalization is much more acute than in the countries of the European Union. First of all, this is because of the nature of regional economic structure. In research [12] we covered regional imbalances in the economic development of Ukraine and the well-being of its citizens. The most impressive manifestations of this are: 1) weak economic integration of the regions inside Ukraine, which is due to increasing of regional disparities, 2) high differentiation of the regions in economic potential (50% of GDP is created by five regions, that is by Kyiv, Donetsk, Dnipropetrovsk, Kharkiv, Odesa regions); 3) uneven localization of foreign investment in the regions (more than 65% of foreign direct investment is concentrated in the cities of Kyiv and Dnipropetrovsk, causing Ukraine's division into a financial center and periphery), 4) low embeddedness of most regions into exports (3 regions – Kyiv, Donetsk, and Dnipropetrovsk regions provide more than 50% of flows of merchandise exports), 5) significant concentration in the consumption of merchandise imports (over 50% of merchandise imports is concentrated in Kyiv and Dnipropetrovsk) [11, p. 19], 6) significant differentiation of innovation infrastructure, uneven regional innovation environment that prevents a balanced socio-economic development of the territories.

In Ukraine against the background of economic inequality of the regions, which to some extent is due to differences in economic potential, there is a significant regional differentiation of human development. Since 1990, the UNO has been publishing an annual global report on human development. According to the 2011 data Ukraine was on the 76th place out of 198 countries, and among the four groups (very high, high, medium, low) is among the countries with high rate of human development. According to the method proposed by a group of Ukrainian scientists led by Academician E. Libanova the regional level of human development is measured. Calculations of the integral index, conducted by this method indicate that in some regions it is not appropriate to their economic potential (Table 1). This indicates that the use of the latter does not have a proper social orientation.

In general, in the HDIR highest rating in 2010, all regions can be combined into groups: those with high index rate (Kyiv), with above average index (includes Kyiv, Poltava, Kharkiv, Khmelnytsk oblasts and the city of Sevastopol); average index (AR of the Crimea), below average index (includes Volyn, Dnipropetrovsk,

Transcarpathian, Zaporizhzhia, Ivano-Frankivsk, Lviv, Mykolayiv, Odesa, Rivne, Sumy, Ternopil, Kherson, Cherkasy, Zhytomyr regions), low (includes Vinnytsa, Donetsk, Zhytomyr, Kirovohrad, Luhansk regions). The criterion for the regions grouping is deviation of actual HDIR parameters from the mean value. The results of grouping demonstrate that in 20 regions (or 74%) the HDIR is either below average or low, in 6 regions (22%) it is average and above the average, and only in one region the HDIR index is high

Analytical studies of the HDIR dynamics show presence of stable trends to decrease the living standards and quality of life in most regions, reflecting the similar trends within the country.

The intensity of changes is caused by varying strength of effects produced by its constituents. This effect can be determined through consideration of the contribution (weight) of each component in the formation of a generalized HDIR. According to the methods of measuring the human development of the regions in Ukraine, the share of demographic development is 10.7% (coefficient – 0.107); of labor market – 9.5%; material well-being – 12.1%; living conditions – 12.2%, education – 12.9%; of health care – 11.4% ; development of social environment – 10.8%; of the environmental situation – 11.3%; and financing of human development – 8.9%.

The total ratings of the regions in 2000, 2005, 2009 and 2010 (Table 2) shows that the leading place belongs to the city of Kyiv, which during the studied period had the highest position both according to the generalized index, and in terms of the of indices of material welfare, education, demographic development, financing of human development and relatively high living conditions of the population. Consistently Sevastopol takes high places (in terms of education level, the development of labor market, living conditions of the population, material well-being, demographic development, and health care) and Kharkiv region (the development of labor market, education and material well-being). Donetsk, Luhansk, Kirovohrad, Sumy and Zhytomyr regions are at the lowest positions, where the Human Development Index of the region is low. A study of regions' ranking gives reason to argue that the dynamics of this indicator is tended both, to downgrade, and to grow.

Significantly are defined the properties caused by fiscal space problems, lack of rigid coordination of budget, tax, and monetary systems of the state, non-conformity of budget policy, and noncompliance of the system of inter-budget relations with the needs for inter-regional differentiation decrease. Given the impact of global factors (new members, trans-nationalization of the economy, fragmentation of economic space, international cooperation), the EU has established and pursues a transformation of the EU income convergence policy The theoretical justification for these actions is the thesis about the relationship of income convergence and nominal and real convergence.



Table 1

**HDIR of Ukraine in 2010\***

Regions	HDIR index				
	high	above average	average	below average	low
AR Crimea			0,494		
Vinnitsia					0,435
Volyn				0,475	
Dnipropetrovsk				0,48	
Donetsk					0,401
Zhytomyr					0,438
Transcarpathia				0,488	
Zaporizhzhia				0,463	
Ivano-Frankivsk				0,487	
Kyiv		0,532			
Kirovohrad					0,423
Luhansk					0,428
Lviv				0,483	
Mykolaiv				0,472	
Odesa				0,455	
Poltava		0,51			
Rivne				0,465	
Sumy				0,444	
Ternopil				0,486	
Kharkiv		0,561			
Kherson				0,468	
Khmelnitsk		0,516			
Cherkasy				0,485	
Chernivtsi				0,479	
Chernihiv				0,475	
Kyiv city	0,698				
Sevastopol city		0,598			

Note. \*Developed on the basis of [13, p. 43].

Table 2

Generalized ratings of the regions in terms of HDIR \*

Regions	2000		2005		2009		2010		Sum of ratings HDIR	Generalized rating of the regions in terms of the sum of rating HDIR	Change of dynamics HDIR
	HDIR	rating	HDIR	rating	HDIR	rating	HDIR	rating			
AR Crimea	0,575	3	0,492	9	0,536	5	0,493	7	24	5	↑
Vinnitsia	0,550	6	0,439	23	0,439	24	0,434	24	77	21	↓
Volyn	0,484	21	0,463	18	0,524	7	0,474	16	62	15	↑
Dnipropetrovsk	0,495	20	0,483	11	0,499	14	0,479	13	58	13	↑
Donetsk	0,449	26	0,396	27	0,407	27	0,400	27	107	27	↑
Zhytomyr	0,495	19	0,451	20	0,469	22	0,437	23	84	23	↓
Transcarpathia	0,546	9	0,504	6	0,503	12	0,488	8	35	8	↑
Zaporizhzhia	0,507	16	0,456	19	0,503	13	0,462	20	68	17	↓
Ivano-Frankivsk	0,508	15	0,481	13	0,512	9	0,486	9	46	11	↑
Kyiv	0,538	10	0,482	12	0,541	4	0,531	4	30	7	↑
Kirovohrad	0,500	18	0,419	26	0,435	25	0,423	26	95	25	↓
Luhansk	0,411	27	0,420	25	0,433	26	0,427	25	103	26	↑
Lviv	0,554	5	0,501	8	0,496	16	0,483	12	41	9	↓
Mykolaiv	0,468	25	0,465	17	0,494	17	0,471	17	76	20	↑
Odesa	0,506	17	0,467	14	0,480	21	0,454	21	73	19	↓
Poltava	0,575	4	0,505	5	0,527	6	0,509	6	21	4	↓
Rivne	0,481	22	0,503	7	0,507	10	0,464	19	58	14	↑
Sumy	0,473	24	0,445	22	0,458	23	0,444	22	91	24	↑
Ternopil	0,532	12	0,465	15	0,505	11	0,485	10	48	12	↑
Kharkiv	0,548	7	0,536	3	0,578	3	0,560	3	16	3	↑
Kherson	0,481	23	0,446	21	0,480	20	0,467	18	82	22	↑
Khmelnitsk	0,536	11	0,507	4	0,522	8	0,515	5	28	6	↑
Cherkasy	0,547	8	0,485	10	0,497	15	0,485	11	44	10	↓
Chernivtsi	0,520	14	0,437	24	0,485	18	0,478	14	70	18	↑
Chernihiv	0,523	13	0,465	16	0,481	19	0,474	15	63	16	↑
Kyiv city	0,716	1	0,658	1	0,695	1	0,696	1	4	1	→
Sevastopol city	0,587	2	0,564	2	0,583	2	0,597	2	8	2	→

Note. \*Developed on the basis of [13, 14; 15].

In the process of integration and evaluation of the impact of global factors it became clear that the introduction of nominal criteria (inflation  $\leq 5,3\%$ , national debt  $\leq 60,0\%$ , the budget deficit  $\leq -3,0\%$ , exchange rate fluctuations «+», «-» 2.25)<sup>1</sup> is only the basis for the development of the economy and economic EU harmonization. The European Commission and the ECB stress the importance of real convergence in the context of the EU enlargement to the East<sup>2</sup>. According to J. C. Brada, it is a reduction in the difference in real variables such as productivity, income and quality of life [16]. This view is found in the writings of other scientists. According to the theory of D. Wiener, the deepening of economic integration should produce a stronger influence on the convergence of incomes and according to the theory of P. Krugman, integration may be the result of income inequality and the fastest path to economic prosperity of weaker subjects [17].

Given that during the economic crisis of 2008–2009 there was a budget deficit barrier exceeding 3%, and 60% of foreign debt of the largest EU countries, namely, France and Germany, according to the European analysts, the Stability Pact for the «mitigating» of the EU nominal criteria convergence should be more flexible and contain additional criteria for imposing sanctions to violating countries [18, p. 45].

Given the above, we focus attention on three important for Ukrainian regional policy things, in particular, the following:

1) in the framework of regional integration (the country) not only nominal convergence of economies of regions (countries) is important, but also real, implying the process that objectively defines a true approximation of their economies due to minimizing differences in key macroeconomic indicators to approximate income of population;

2) real convergence income criteria are not only labor productivity, incomes and living standards of people, but also employment, unemployment, taxation rate, the development of foreign and national trade, the level of social benefits, government compensations and subsidies for socially vulnerable groups of population;

3) new empirical studies show that the trend of income convergence is obligatory present in a homogeneous group of countries «which is characterized by close economic cooperation, similar in economic and social development and geographical location», and it is completely absent in case of its differentiation [18, p. 47]. This suggests that all possible mechanisms for raising income levels, regional indices of human development and quality of life should be used in

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<sup>1</sup> In 2009 Ukraine met three last criteria.

<sup>2</sup> The criteria defining the prospects for the EU membership and providing for real convergence, were proposed at the Copenhagen Summit.

Ukraine, as far as failure of real convergence criteria may be one of the barriers to integration in the EU.

First of all, changes should take place in the possibilities of placing certain budgetary resources for implementation of reforms [19, p. 13]. As a result of decentralization of powers much of the components of the human development index are provided by local budgets. In reality, the formation process of local budgets means that the proceeds go to local budgets, and if the latter are revenue-short, then they are replenished by transfers. If based on the criteria these incomes are recognized in the state as excessive, and are removed. As far as the Ukraine's economy is formed in such a way, that in order to save resources the vertically integrated structures are built, where the head offices (head offices of banks, credit unions, investment funds), that is, the major taxpayers in the financial sector are concentrated in Kyiv, it is this city, that is the most serious donor to state budget. However, the local budgeting system does not contain the proper motivation for tax payers. In this regard, scientists come to the idea of major changes in the administrative-territorial division and the formulation of local budgets to make them self-sufficient. Given the practice of administrative-territorial structure in the EU countries, the pilot projects have been developed on the administrative-territorial reforms in Ukraine, which will begin since 2013.

In the area of the improvement of fiscal policy and the inter-budgeted relations of interregional differentiation and strengthening the unity of economic space of Ukraine, which is important to maintain economic security in the face of the deteriorating of global contradictions, the following issues become topical:

- 1) strengthening of the financial independence of regions and municipalities;
- 2) improvement of budget regulation system (despite the changes of budget and tax legislation, the process of fiscal decentralization is slow);
- 3) promotion of the effective implementation of local government fiscal capacity, increase of its interest in stimulating economic activity through improving redistribution mechanism of national taxes;
- 4) coordination of powers and financial resources division among the levels of government. According to Ukrainian scientists, in total personal incomes are less than a third part of total revenues to general and special funds of local budgets, including intergovernmental transfers, since it is just their proportion in the general fund that determines the real budget independence of local self administration [18, p. 35]. The problem of decentralization of power and financial resources is a major reason that hinders the integration of Ukraine into the European Union, that among others, is included in an expert opinion on the discrepancy of Ukrainian national legislation with the European Charter of Local Self-Government Directorate on Democratic Institutions, and Directorate General of Democracy and Political Affairs of Europe, of July 30, 2010.

Finding the ways of financial support for regional development in the practice of Ukraine, is mainly concentrated on the problem of maintenance budgets, increasing of revenue base and rationalizing of budget expenditures. However, if to take into account the phenomenon of informal regionalization due to globalization and trans-nationalization of the world economy, the solution ideology of budget funding efficiency should be based on the following: the account of the full range of sources of financial resources of municipalities (cities, towns, villages); recognizing them as specific corporations; the full use of the tools for municipal financial management. Into the practice of local self-governments there should be implemented the resource analysis and prediction of the whole amount of financial resources of local communities: local budgets; higher budget funds allocated for implementation of delegated powers; communal facilities' funds; attracted funds (international grants, funds, credit resources).

Administrative-territorial reform, that is being launched, will create a foundation for this by strengthening local communities. Under such circumstances, methods of municipal financial management will be more widely used in the management of local finances, in particular, gradual introduction of medium-term (two-, three-year) financial planning; budgeting implementation as a set of technologies for planning accounting and control of cash funds and financial results in the municipality; practice spreading of financial controlling; practices revival of municipal bonds; improvement of control over the form of public-private (according to the legislation of Ukraine – public-private) partnership (concessions, contracts, leases, production sharing agreements); practice replication of the European countries concerning anti-recessionary municipal administration, including the bankruptcy mechanism .

Of particular note in the context of the investigated problem deserves what effect the trans-nationalization of the economy produces on the regional development and the formation of regional policy. The TNC's influence on the economy of Ukraine's regions is ambiguous. On the one hand, placing capital of TNCs in a particular area is seen as expected attraction of strategic investors, and on the other – there is a difference between entrepreneurial investments and investments of multinationals, the financial power of whom is the result of the expansionist policy. Acting in the country, TNCs tend to depletion of natural resources; they can deform the structure of the regional economy by monopolizing its individual sectors and violation of objective proportions of territorial division of labor, which leads to the destruction of intra-national regional integration, and emerging of social and environmental risks. Chaotic attracting of «strategic investors» to the economy of certain regions of the country often leads to the destruction of the «core» of industrial-technological structure of the national economy in general. In these circumstances, the public policy is good to use advantages of trans-nationalization alongside with protecting the identity of economic and political dependence of Ukraine, the interests of domestic producers and sustainable growth of prosperity [19].

In addition, the trans-nationalization processes of the regional economy of Ukraine should be regulated by means of regional policy. Undesired effects of TNCs on the development of the country's regions is a problem of a specific area, therefore, regional and local authorities should have the influence leverage on the results of such activities, reflected in modern concept of regional policy in the conditions of the formulation of the legal framework for regulating the processes of trans-nationalization of regional economy at the state level. The policy essence of the trans-nationalization of regional economy consists in the actions undertaken by the state through the regional authorities to obtain positive synergy effects of interaction with foreign multinationals, as well as creating conditions for the formation of large corporate integrated structures to ensure innovation and investment development and economic security of the regions. The participants of the 5<sup>th</sup> International Research and Practice Seminar (27–27 October 2012, Zaporizhzhia) came to the conclusion that the model of institutional order transformation of trans-nationalization of regional economy should be implemented in Ukraine, which will enable to take into account the initiatives of regional authorities in regulating the activities of foreign companies, and pursue the reasoned, logical and transparent for foreign investors and international organizations regulation policy [19].

The combination of systemic effects of endogenous and exogenous risks in disparity of regional development, which came into chronic, poses to Ukraine challenges and strategic objectives regarding the development and implementation of a new state regional structural policy. A new quality of regional economic development includes the following: mobilization and utilization of available resources in the region for the needs of increasing the development potential and provision of incentives for economic growth; creating incentives for the formation of the regional economic «growth points», and strengthening of their relationships with the periphery, involving into this process the existing local material, financial and human resources; creation at the regional level the effective economic structures oriented at the intensification of the use of regional economic potential (regional and interregional clusters, industrial parks, etc.) as the basis of innovation and investment structural changes, creation of new jobs; improving the investment climate in the regions; building at the regional level the developed infrastructure (transport, production, investment, social, communication) and others.

A new state regional structural policy in view of the EU practice must be focused on streamlining of «center-regions» relations, maximum assistance to learn and use their own regional economic potential, and enhance their self-development, removal of significant regional development disparities, improving of its institutional support, improving of regional socio-economic subsystems convergence.

Among the priorities of the state regional structural policy the given below are worth accentuating: the state participation activation in regulating of interregional relations; revival of investment activity in the regions; improvement of in-

stitutional support for the structural transformation of the national economy on a regional basis.

The government involvement in the regulation of inter-regional relations is necessary for strengthening the integration of the internal socio-economic space of the country. The integration of regional economies, in its turn, requires the development of adequate mechanisms of regulation of new forms of relationships that are developed among the regions, harmonization of interests and strategic management, and the interaction between the regions themselves.

Intensification of investment activity in the regions primarily requires relevant legal provision aimed at creating in the regions the developed institutional framework. In recent years, in the legislative area a number of significant steps were made, the Conception adopted of the economic program for the investment development in 2011–2015, and the Program approved of the investment and innovation activity development in Ukraine. But these documents, despite all their positive features and tools for effective regulation of investment activity do not contain provisions to enhance the role of self-administration organs and local executive authorities to stimulate the flow of investments, also they do not contribute to the formation of regional industrial and infrastructural framework for the inflow of these resources either, that is they are not related to the formation of the investment potential of the regions..

In the context of structure innovation of regional economies there have been recognized in the world practice the main forms of innovative enterprises support, including those in the industrial cluster systems. These forms include the following: direct funding (grants and loans), which reach 50% of expenditures for the creation of new products and technologies (France, USA and other countries); providing loans, including those without interest payments (Sweden); targeted subsidies for research and development (in almost all developed countries); creation of funds for innovation introduction in view of possible commercial risks (England, Germany, France, Switzerland, the Netherlands); gratuitous loans, reaching 50% of the cost for innovation implementation (Germany); reduction of government fees for individual inventors (Austria, Germany, USA, etc.); delay of duties payments or exemption from them, if the invention relates to energy savings (Austria); free maintenance of applications of individual inventors, patent attorneys free services, exemption from customs duties (Netherlands, Germany). The institutional resolve of this problem in Ukraine should be legislatively defined procedures for the formation and functioning of clusters.

While solving the issues of regional economic structure transformation, the limited financial resources still are a great problem. In this regard, it is important to ensure the legal use of the potential of international financial institutions that deal with regional development, in particular the European structural funds, who within the implementation of their basic objectives in regional policy (convergence, regional competitiveness, employment, and territorial cooperation), are

able to provide a significant assistance. However, such assistance could be delivered to Ukraine in terms of determining at the level of the state a special national institution capable to administer large volumes of international aid funds (for example, the State Regional Development Fund). In addition, the internal interests of Ukraine cause the need for improving legislation regarding obtaining international technical assistance.

### **Cooperation Between Ukraine and the European Union in the Process of Regional Policy Implementation**

The cooperation between Ukraine and the EU in the field of regional policy currently focuses on the following areas:

- 1) the implementation of the Memorandum of Understanding to establish a dialogue on regional policy;
- 2) establishment of collaborative engagement between representatives of Ukrainian local and regional authorities and the EU in the framework of the EU Committee of the Regions;
- 3) implementation of joint EU initiatives on the Crimea;
- 4) participation in the implementation of the pilot program of regional development «Eastern Partnership» (PRDPEP);
- 5) implementation at the regional level projects allowing for the EU financial instruments (European Neighborhood and Partnership Instrument, the European Investment Bank, Investment Tool of Neighborhood Policy);
- 6) involvement of Ukraine in the implementation of the EU Strategy with respect to the Danube Region;
- 7) the promotion of the Ukrainian regions to the European regional associations, in particular, such as the Assembly of the European Regions, Association of the European Border-line Regions, the Council of the European Municipalities and Regions, Conference of the European Foreign Assemblies, Conference of the Peripheral Maritime Regions, the European Association of Local Self – administrations of Mountainous Regions and European Cities, Conference of Presidents of the Regions with Legislative Powers.

Using the EU practice in the area of regional policy is to distinguish important issues or problems of that policy, which are to be taken into account when developing and implementing a strategy of cooperation. The main areas of such cooperation should be the following: strategic setting of objectives; activation of



public administration and local self-government reformation; implementation of the EU experience on the development of the European regions, especially Poland and Germany, the Czech Republic and Germany, Slovenia and Italy; support of business development or individual projects; formulating of new organizational, technical, financial mechanisms and instruments to promote the implementation of the new strategy of «The Reinforcing European Neighborhood Policy for 2007–2013»; ensuring of transparency in the implementation of strategies and program activities [19, p. 66].

Among the set of challenges Ukraine is facing, as has already been mentioned are: modernization of territorial structure, which will ensure the formation of an economically self-sustaining communities, will define a new vision of functionality and status of local authorities, and local bodies of executive power. This approach was supported by members of the International Hearings of «Development of Good Governance at Local and Regional Levels», November 1, 2011 with the participation of representatives of the Council of Europe. Under a Commission of President of Ukraine, the Cabinet of Ministers of Ukraine of 29.02.2012, № 169 formed a working group on improving the territorial organization of authorities and local self-administration. For now, the group, in collaboration with experts from the Council of Europe drafted the Concept of reforming the system of local self-government and territorial organization of power in Ukraine.

For effective implementation of regional policy amidst the globalization challenges, it is important to strengthen the status of local self-government. On October 23, 2012 Verkhovna Rada of Ukraine registered a draft law on ratification of the Additional Protocol to the European Charter of Local Self-Government on the right to participate in the affairs of local government organs (ch. No 288). The Additional Protocol was drafted at the Sixteenth European Conference by the Ministers responsible for regional and local governments (Utrecht, the Kingdom of Netherlands, 16–17 November 2009), which is now open for signing by member states of the European Council. The documents require from all branches of power in Ukraine the organic interaction and high professionalism. The Monitoring Group of the Congress of Local and Regional Authorities of the Council of Europe, which made a scheduled visit on 21–23 May 2012, gave a positive evaluation of the organizational level of the first monitoring visit, and at the meeting of the Monitoring Committee (Vannes, France, July 6, 2012) noted the need to improve the national legislation regarding the proper separation of powers and financial support of local governments, which follows from our study. An indicator of positive developments in the field of regional policy in Ukraine is that on 17.10.2012 the delegations from 47 member states of the Council of Europe elected the President of the Chamber of Regions of the Congress of Local and Regional Authorities of the Council of Europe (2012–2014 years) the delegation member of Ukraine. As part of deepening the integration process a particular attention requires using the potential of the European regions (today eight European regions have been created in Ukraine), and enhancing of the

cross-border cooperation. Despite the vast European experience activities of many models, the functioning of this institution in Ukraine, the implementation of cross-border projects have not found an adequate development. The creation of «Karpaty», «Buh», «Southern Danube» Euro-regions, which could play an important role in «removing» the borders on the European Union, has no proper legal framework. In interregional policy when implementing the European model in Ukraine there dominates the «intention policy», while the practice of cooperation and implementation of joint projects is so low, that permits some researchers to assert the ineffectiveness of the European regions [20]. Nevertheless, currently a certain legal basis of this form of cooperation have been built

According to the European Framework Convention on Trans-border Cooperation between Territorial Communities or Authorities of 21.05.1980 years [21] (Madrid Convention) each country should eliminate any legal, technical and administrative difficulties that could delay the development of cross-border cooperation. Territorial communities or authorities should provide the same facilities for cooperation as they do at the national level. The Recommendation of the Committee of Ministers of the European Council of 19.01.2005, given to the member states indicates that if the state constitution allows, the state should recognize the decisions taken within the framework of agreements on border cooperation [22].

The Council of Europe recommends [22]: 1) to check thoroughly from the legal point of view the agreement on border cooperation concluded by territorial communities or authorities; 2) to discuss and promptly sign bilateral and multilateral agreements, if the implementation of the Madrid Convention is the subject of such agreements. The Convention also includes the right of the subjects of trans-border cooperation to develop their projects on the creation of appropriate authorities of trans-border cooperation. The Protocol № 2 to the European Framework Convention on Trans-border Co-operation [23] indicates that not only the communities of adjacent territories may be involved into trans-border cooperation, but also those who have common interests, which provides inter-territorial cooperation in the framework of twin cities.

Based on international legislative power, Verkhovna Rada of Ukraine adopted the Law «On Ratification of the Protocol No 3 to the European Framework Convention on Trans-border Cooperation between Territorial Communities or Authorities concerning the Associations of European Cooperation (AEC)» of 16.05.2012 aimed at promoting cooperation between territorial communities or authorities of various countries according to political and administrative structures and the international obligations of States, to prevent difficulties, which are possible because of differences in national legislation in the field of cross-border and interregional cooperation. The Protocol stipulates that the territorial communities or authorities and other organs may establish a body of cross-border cooperation in the form of Association of European Cooperation (AEC) on the territory of the member states of the Council of Europe who are the parties of this Protocol. The

ratification of the Protocol will facilitate the cross-border cooperation with regard to the principles and priorities of the regional policy.

Increased interregional cooperation will allow using the Protocol as a tool for regions of Ukraine's approximation to the EU structural funds. Along with the strengthening of the legislature, measures of organizational and economic problems, are noteworthy, in particular the following: development of information and consulting infrastructure of inter-regional cooperation; development of innovative – investment trans-border clusters; designing of a strategic program of the logistic system development in Ukraine; creation and implementation of cross-border logistics clusters; development and implementation of cross-border energy-efficient projects; creation of a network of centers for exchange of practices; intensification of works on construction of railroad transitions.

## **Conclusions**

Evaluation of global factors, of the EU mega-regional contradictions EU, the EU «new policy», and the problems of regional policy in Ukraine allows to outline the challenges facing Ukraine, including the below:

- the emergence of risks (geo-economic, economic, energy, demographic), resulted by the polarization of the economic growth poles, by the choice of alternatives, implying either open competition of Ukrainian goods and services in the European market or competition in the CIS markets, the need to correct a branch-wise and sectoral structure of the regional economy;
- the necessity for separation of important issues and problems of regional policies that need to be considered when developing and implementing a strategy of cooperation. The main areas of that cooperation should include the following: determination of strategic goal; implementation of the CEE countries' experience on the development and functioning of the European regions, primarily Poland and Germany, the Czech Republic and Germany, Slovenia and Italy; support for integrated programs to improve the quality of infrastructure;
- the need to modernize the mechanisms of regional policy, in particular, choice of mechanism priorities, funding mechanism of structural changes in the regions, strategic mechanism, the mechanism of investment reorientation in priority industries, and sectors of economy;
- further improvement of institutional support for regional development, in particular, involvement of new forms of cross-border cooperation, and the development of interstate regional clusters.

The EU practice in the field of medium-term budgetary and financial planning also needs replication. The strategy of border – line development of the Ukrainian regions coordination with the strategies of neighboring regions of Slovakia, Hungary, Romania, and Poland; the implementation of measures to improve the efficiency of cooperation within the Euro-region of «Bug», «Upper Prut», «Carpathian Euro-region», and «Lower Danube» The problem is noteworthy to stimulate the creation of innovative regional infrastructure development between the EU neighboring regions in terms of expected concluding of an Agreement on a deep and comprehensive free trade area between Ukraine and the EU.

The success of the response to the challenges facing Ukraine in acute global and mega-regional differences will depend on real ability for cooperation of regional and local authorities, implementation of initiated forms of cooperation with European partners in the area of development and implementation of inter-regional investment, innovation, infrastructure, and educational projects and programs, building of a network of inter-regional centers of innovation development, solving the problems of illegal immigration.

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