

Ukraine:

**processes, results,**

prospects.

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Україна: процеси, результати, перспективи.





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**UKRAINE:  
PROCESSES, RESULTS, PROSPECTS**



National Institute for Strategic Studies

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Генеральний партнер



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**VALUES AS A FOUNDATION  
FOR NATIONAL UNITY**

Ukraine: processes, results,  
**prospects.**

The ever-recurring allegation of the "two Ukraines" keeps fueling extensive discussions and is deeply rooted into the Ukrainian, and not just Ukrainian, discourse. The division of the Ukrainian citizens on the basis of native language, political culture, and religion has been widely illustrated. Some experts actually consider Ukraine to be the frontier where different civilizations collide forever. Ideological suggestions of this kind are heavily exploited, especially in times of political strife, and there is an obvious political motivation to claim them as axioms.

However, the acceptance of cultural and political differences in the society must not take one's attention away from the following irrefutable facts:

- the independence of Ukraine is a conscious choice of all the Ukrainian people;
- Ukraine has always successfully preserved political, economical and social stability, even in times of crisis;
- the process of Ukraine's evolvement as a state and nation takes place within the general context of national development in Central and Eastern Europe, though with a certain delay.

Ukraine has gone through several major political crises throughout the years of independence, such as the Crimean problem of 1992-94, the constitutional process of 1995-96, and the Orange Revolution of 2004. Unlike neighboring Russia, Moldova or Georgia, Ukraine has managed to avoid civil conflicts and successfully preserve its unity and territorial integrity.

In 2006-2007, Ukraine found itself in the situation which would be difficult even for any developed democracy when the President and the Government took opposed positions on fundamental political issues. The problems of such "cohabitation" have been described in comparative political science a long time ago, but here the situation was all the more complicated because of imperfect current Constitution of Ukraine. But the political crisis that could seriously threaten the stability and security of the country was resolved in a democratic manner, with the early parliamentary election.

In 2005-2007 the political process was marked by the diminishing popularity of separatist slogans to the point of their almost complete marginalization.

In the summer of 2007, Razumkov Center conducted a national poll where one of the questions was, "Which way of state development do you consider the best for Ukraine?" The results are shown in table 1.

*Table 1*

**Possible answers to the question, "Which way of state development do you consider the best for Ukraine?"** **Results (%)**

1	To remain a unitary state with regions retaining the powers they currently have	34,8
2	To remain a unitary state but to transfer more powers to regions	36,3
3	To transform into a federal state	10,3
4	To break down into a number of independent states	0,8
5	To lose certain regions to other states	0,5
6	Hard to answer	17,2
7	No answer	0,1

Obviously, the poll results attest to a high level of the nation's unity. This can only be explained by the fact that there are some fairly powerful forces within Ukraine which do consolidate the Ukrainian society and ensure further progress despite any difficulties.

The forces that hold the Ukrainian nation together are linked to the values shared by the Ukrainian citizens.

Values are the deepest underlying basis for views and beliefs that lie at the core of human behav-

ior. Like many other social and cultural phenomena, they are hard to study and escape a clear definition. In the early 1980s there existed nearly 180 different definitions of "values". Ukraine is presently undergoing a deep transformation which is often accompanied by various crises, therefore the authors of this text use definitions borrowed from conflict management studies.

It is important to note that both theory and political practice place values high among the factors determining the development of states and societies. Nearly all of the European Union's political documents appeal to common and universal European values. The most recent example would be the Reform Treaty signed in Lisbon in late 2007 which determines the future institutional development of the EU.

The US National Security Strategy also considers values to be an important political factor. The leaders of Russia, China, and India point to their societal values as the reason for seeking their own ways of development. Therefore, it is safe to assume that value systems and their compatibility, or lack thereof, will define the centers of gravity in the 21st century global world.

In order to better understand what values are it would make sense to define what they are not. As motivational factors of human behavior, values are often confronted with material interests.

Interests determine the rational behavior of people and their ability to reach compromise, especially in economic relations. But as history proves, the behavior of neither individuals nor communities is determined solely by rational thinking.

Under certain circumstances, individuals and communities may give up a part of their interests, but they would never give up their values. Values are not subject to compromise or bargaining as they are part of one's dignity, and there is a evident link between assertion of one's dignity as value and the fundamentals of the very human existence, namely identity and security.

As experts point out, identity and security are so vital for one's feeling of general satisfaction that people would go almost at any length, even violating basic behavioral norms or giving up their interests in order to satisfy their fundamental needs.

However, this does not mean that people who do not share the same values cannot coexist within one national community. Unless one's personal identity is threatened, there is no reason to threaten other people's identities. On the other hand, history abounds in episodes when a certain group would protect its dignity by confronting the identities of other, hostile groups.

The Prime Minister of Great Britain Gordon Brown said in his speech *Who Do We Want To Be? The Future of Britishness*, "In a fast changing world people need strong roots to feel secure. Here the question is essentially whether our national identity is defined by values we share in common or just by race and ethnicity."

It is just as important for the Ukrainian society to find an answer to that question. To do so, one can examine the results of the sociological surveys that studied the attitude of the Ukrainian citizens toward the fundamental values of identity and security<sup>1</sup>.

The results demonstrate that despite the evident divide along the lines of political preferences within the Ukrainian society, there is a marked increase of the number of people in every region who deliberately and willingly:

- 1) associate themselves with Ukraine as an independent state;
- 2) consider themselves Ukrainians while not necessarily being ethnic Ukrainians;
- 3) support political independence of Ukraine;
- 4) proclaim their patriotism and relate their interests to the future of the country.

Each of the above statements is proven by the results of numerous polls.

<sup>1</sup> *This article uses results of sociological surveys that were conducted by the Sociology Institute of the NAS of Ukraine, the Institute of Social and Political Psychology of the APS of Ukraine, the Ukrainian Center for Economic and Political Studies (Razumkov Center), Sofia Social Studies Center, International Tolerance Center, and Kyiv International Institute of Sociology.*

Either the absolute (over 50%) or relative majority of respondents in all regions agree with these statements. Those who disagree with at least one of the four are in definite minority in the Ukrainian society.

Regarding the first statement. According to the results of many surveys, the dominant identity would be "the citizen of Ukraine".

The Institute of Sociology of the National Academy of Sciences of Ukraine conducted a survey in 2000-2006, which, among others, included the question: "Who do you consider yourself to be, in the first place?" The results (in percentages) are shown in table 2.

Table 2

Possible answers to the question, "Who do you consider yourself to be, in the first place?"	2000	2001	2002	2003	2004	2005	2006
The resident of the village/town/city I live in	31,3	30,2	31,6	32,3	30,5	24,6	27,7
The resident of the region I live in	6,9	8,6	5,9	4,8	6,7	6,4	6,6
The citizen of Ukraine	41,0	34,6	41,0	41,1	44,2	54,6	51,7
The member of my ethnicity			3,0	2,5	3,1	2,1	1,8
The citizen of the former Soviet Union	12,2	17,8	12,7	13,1	10,7	8,1	7,3
The citizen of Europe	2,8	2,8	0,7	0,5	0,7	0,8	1,3
The citizen of the world	5,6	5,7	2,7	3,6	2,4	2,5	2,8
Other			1,8	2,0	1,4	1,0	0,7
No answer	0,2	0,3	0,8	0,2	0,2	0,1	

Over the last few years, the share of respondents who identify themselves as citizens of Ukraine has increased to almost double the share of those who identify themselves with a specific place (i.e. a village, a town, or a city) and 8 to 9 times greater than the number of those who consider themselves residents of a specific region.

Another point of interest is the comparatively small number of the share of people who consider themselves members of their ethnicity, first and foremost.

These results may be compared with the results of the poll conducted by Razumkov Center in 2001-2005. In their case, the relative majority of respondents considered themselves first and foremost the residents of the places they lived in. Nearly one third of respondents identified themselves as the residents of Ukraine, and one fifth of respondents identified themselves with their region. The obvious difference in results can be attributed to specific perceptions of a political term "citizen of Ukraine" and a more neutral term "resident". Such difference most probably indicates strong civic feelings among Ukrainians.

It is also interesting to compare these results with the results of another poll conducted by Razumkov Center in June of 2007. The respondents were asked which cultural and spiritual ties of theirs they felt were stronger-with Ukraine or with the region they lived in. 41.9 % answered "Ukraine" and another 29.5 % picked their specific region.

Since "identity" as value is so hard to define, it is just as hard to interpret, and even more so to compare the results of different surveys. However, all of them quite clearly point to the depth of Ukrainian identity.

Regarding the second statement. The increase in the number of citizens who consider themselves Ukrainians becomes evident when comparing the population census results of 1989 and 2001. The trend can be observed in all of Ukraine as well as in every particular region.

The change might be explained by the ethnic factors, such as emigration of ethnic Russians from Ukraine after the dissolution of the Soviet Union, the downsizing of the population in the industrial regions of the East at a faster rate compared to the rural regions of the West where traditionally the number of marriages and children in the families has always been somewhat higher, but such explanation does not hold up under further analysis.

The results of the population census of 2001 listed in table 3 show that while on the national level one can observe, although not so prominently, the linkage between the increasing number of both Ukrainians and Ukrainian speakers, in the Donbas region, the growing share of Ukrainians correlates with the diminishing number of Ukrainian-speaking people.

Table 3

Dynamic of changes in national and linguistic composition of the population of Ukraine (changes in percentages as of 2001 compared to 1989)

Ethnicity, native language	Ukraine in general	Oblasts				
		Donetsk	Luhansk	Lviv	Kharkiv	Kherson
Ukrainians	+5,1	+6,2	+6,1	+4,4	+7,9	+6,3
Ukrainian language	+2,8	-6,5	-4,9	+5,2	+3,3	+5,4
Russians	-4,8	-5,4	-5,7	-3,6	-7,6	-6,1
Russian language	-3,2	+7,2	+4,9	-5,0	-3,8	-5,6

Therefore, the conclusion can be made that the increase in number of the Ukrainian citizens who identify themselves with the title ethnic group is not a pure result of demographic processes. The majority of Ukrainian citizens chose Ukrainian identity regardless of whether they speak the Ukrainian language or not.

The sociological data also shows that if the respondents are given the opportunity to choose not only from the national but also all other group identities (such as social, age, regional, or religious), most often they still pick the Ukrainian identity. This can also be observed in Ukraine as a whole and in every particular region. Moreover, the share of respondents who pick this answer steadily increases, especially among young people.

Regarding the third statement. The largest number of supporters of the independence of Ukraine was observed at the referendum of December 1, 1991. During the following few years, their number fluctuated between the relative and absolute majority. What should be taken into account before commenting on this trend is the level of people's mobilization at the time of the referendum, which would not be possible to attain when conducting a poll, and the painful process of social and economic transformation in the early '90s that caused many people to feel insecurity about their future.

In 2003, when asked the question "How would you vote if the national referendum on independence was held today?" 45.5 % of respondents answered they would vote for independence. By 2006, however, this figure increased to 57.6 %.

The results of the early election to the Verkhovna Rada of Ukraine of 2007 confirmed again that independence is of great value to the Ukrainian citizens. The popularity of those political parties that in one way or another advocate the restoration of the Soviet Union has been constantly going down since 2002. Politicians are forced to reckon with the importance of state independence in the eyes of Ukrainians and account for that in their programs and actions.

Regarding the fourth statement. Various poll results show a relatively high level of patriotism among the citizens of Ukraine.

The number of people who consider themselves patriots of Ukraine had increased from 60 % in 2003 to 75 % by 2005.

In 2005, 90.3 % of respondents claimed that they considered Ukraine to be their homeland. 78.7 % would pick Ukraine as their homeland even if they could choose. In August of 2006, the majority of respondents (69.5 %) said they were more or less proud of being citizens of Ukraine.

The joint research that was carried out by the Institute of Politics and the Ukrainian Democratic Circle in December of 2006 attests to a strong emotional feeling among the respondents: 65 % are proud to be citizens of Ukraine (as opposed to 49 % in 2002). It is important to note that people who take pride in being citizens of Ukraine are in a marked majority in all the regions—from 58-60 % in the Central, Eastern, and Southern regions to 74-79 % in Kyiv and in the Western Ukraine. Also, the greatest increase (from 39 % in 2002 to 60 % in 2006) is observed in Donetsk and Luhansk Oblasts.

In the last few years the most popular manifestations of patriotism have remained basically the same: working for the benefit of Ukraine, taking care of the family, respect for the law and state institutions, i.e. all the things that people in all the regions of Ukraine would subscribe to.

Therefore, there are no such problems in Ukraine as the lack of patriotism, loyalty to their country, and devotion to its independence among Ukrainian citizens. The real problem is with different regional understanding of many aspects of Ukrainian identity. In order to strengthen the national unity it is vital to overcome these differences, especially those that are incompatible.

The further development of Ukraine as an independent state requires formation of a modern national identity-political Ukrainianness common for all regions and all ethnic, linguistic, religious and other groups of population.

Since the time of Pericles, the basic definition of democracy has been "not the few but the many govern", thus it is vital for an efficient democracy to clearly outline those groups of citizens who elect and those who are elected. Democracy is based on the inclusion-exclusion principle. Therefore, identity is a realization of the difference between "us" and "them", and in order to understand "who we are", it is important to define "who we are not".

Since the days of Taras Shevchenko, "Russian" has been the "constituting other" for Ukrainians. However, the attitude towards "the other" in the context of modern identity is not hostile. To this day, Ukrainians still link regional peculiarities of Ukrainian identity with the degree of closeness to or remoteness from Russia.

Positive attitude towards Russia is characteristic of all regions, even the West (60 %) where people are the least oriented toward Russia.

In 2005, 54 % of Ukrainians acknowledged their cultural, traditional, and attitudinal similarities with Russians, while only one third believed that Ukrainians bore no resemblance to anyone. Point for comparison: another closest national group resembling Ukrainians-Poles-scored 7 %, and all other groups scored less than 1 %.

According to the latest research by the International Tolerance Center, the integral index of social distance between Ukrainians and other ethnic groups was 4.46 (on a 1-to-7 scale), while the index of social distance from Russians was only 1.94.

As far as cultural influence of Russia on a specific region is concerned, the situation looks different. According to a nationwide survey conducted by the Razumkov Center in 2007, 15.7 % of respondents claim they are culturally and spiritually orientated toward Russia, however, the results vary greatly by regions: 40.6 % in the Crimea, 36.4 % in the Donetsk Oblast, 12.5 % in Kyiv and 1.0 % in Lviv Oblast.

This cultural influence, both past and present, is what attributes heavily to the differences between the regions of Ukraine, particularly in recognizing the Ukrainian language as a defining factor of identity.

As of the summer of 2005, the usage of the Ukrainian language was considered a manifestation of patriotism by 72.8 % of respondents in the Western Ukraine and only by 15.2 % in the East; 20.3 and 3.3 % respectively considered it to be a unifying factor for the Ukrainian people.

The results of this patriotism survey of the Ukrainian citizens, just as the election results, prove that neither the Ukrainian nor the Russian language as a means of communication define the identity or the political views of respondents, which can be clearly seen when comparing political behavior of the Russian-speaking residents of Kyiv and the Russian-speaking residents of Donetsk.

Hence the conclusion that a compromise on language issues is perfectly possible. The majority of Ukrainians are bilingual, at least according to their answers to survey questions. Curiously, when asked about what other language besides Ukrainian should be compulsory at the educational institutions, most respondents named the English language, most likely for pragmatic reasons.

The conflict arises when the focus is shifted from the pragmatic aspect of the linguistic issue to the value aspect, i.e. when the language is claimed to be a defining if not the only factor of identity and is perceived as such.

Survey results demonstrate that respondents tend to support the domination of the language of their ethnicity (as is the case with the Russian-speaking ethnic Russians and the Ukrainian-speaking ethnic Ukrainians) or the language which is prevalent in their region. The level of mutual tolerance in this regard is low.

Some researches suggest that this conflict is escalating. This should be attributed to the growing number of citizens who demand state protection and support of the Russian language (35.4 % as of August of 2006 as opposed to 21.3 % as of 2003), while the share of people who demand state protection for the Ukrainian language has remained within the 44-45 % range.

However, the assertion that the language issue is key among the problems that concern the citizens of Ukraine appears to be groundless. Another survey that was conducted by the Razumkov Center in the summer of 2007 and included the question "In your opinion, which of the major social and political problems of our country need to be addressed immediately?", showed the following results (in percentages; respondents were allowed to pick several alternative answers to the question) (see table 4).

Table 4

1	Indifference of the authorities to public opinion	58,2
2	Suppression of the Russian language and culture	12,5
3	Lack of mechanisms for average citizens to influence decision-making	29,4
4	Courts' lack of independence	27,5
5	Corruption in the higher echelons of power	47,4
6	Inability of the authorities to ensure law	37,6
7	Arbitrariness of law-enforcement bodies	15,6
8	Arbitrariness and extortion by local authorities	21,1
9	Weak position of the Ukrainian language and culture in Ukraine	6,8

Depending on the region, the answers to these questions vary substantially. In Lviv Oblast, 12.9 % of respondents are concerned over the weak position of the Ukrainian language, while the suppression of the Russian language is of concern to 3.2 %, as opposed to 1.4 and 27.2 % respectively in Donetsk Oblast. Still, corruption and indifference of the authorities to public opinion and inability to ensure law are considered to be the most crucial problems both in the West and in the East, and in all of Ukraine in general. Obviously, the strengthening of the civil aspect of the Ukrainian identity depends on addressing these issues which are a top priority for people in all the regions.

These results suggest that Ukrainians do value democracy and supremacy of law in the European sense. Another proof would be consistent support of the European direction for Ukraine. For many years, protagonists of Ukraine's membership in the European Union have consistently outnumbered its antagonists, though a large fraction of people are still undecided.

Orientation towards Europe is characteristic of the modern Ukrainian identity. For example, unlike the Ukrainian citizens, the majority of Russians believe that Russia requires its own special form of democracy in line with specific national traditions (according to the results of the survey conducted by the Russian Levada Analytical Center in December of 2007).

Historical memory, or rather the way different population groups interpret their regions' and country's past based on either national or Soviet versions of the Ukrainian history, is another factor that contributes to the conflicts between different regions of Ukraine. Sociological data on the ambivalence of Ukrainian citizens' perception of the Ukrainian history is listed in chapter 6 of the Expert Report.

On the other hand, certain differences in the national narratives make it possible to distinguish between Ukrainian and Russian identities. A prominent example would be the negative assessment of Stalin among the Ukrainian citizens-61.7 %.

In Russia, as of summer 2007, 23 % of citizens expressed their negative attitude toward Stalin, while over half of the citizens believe that he had played a positive role in history, and 64 % believed that "in the days of Stalin people were kinder". According to the Levada Analytical Center, collectivization and repressions were considered significant historical events by 6% and 17 % of Russians in 2003, respectively; curiously, compared to 1989, these percentages decreased twofold.

The myth about the Great Patriotic War plays an important part in presenting Stalinism "with a human face". Russian researcher D. Khapayeva writes: "This myth presents the war that took 27 million lives and clearly demonstrated the Soviet system's total disregard for an individual as an inevitable sacrifice deliberately made by the people in the name of their homeland. This "barrage myth" was supposed to mask reprisals and the tragedy of people's life under the totalitarian regime."

The understanding of the Ukrainian famine, or Holodomor, by the Ukrainian society may become a turning point in the formation of national historical narrative and its separation from the Soviet version of history which in official Russian documents is often referred to as "common history". Commemoration of the tragic anniversary on the national level and broad public discussion of the reasons and outcomes of the crime committed by the Soviet regime have already resulted in certain changes. In November of 2007, 63.2 % of the surveyed Ukrainian citizens supported the Verkhovna Rada of Ukraine in declaring Holodomor of 1932-33 an act of genocide against the Ukrainian people.

For the sake of better understanding of the Ukrainian identity, we should also take into account another fundamental value, security. The Ukrainian citizens are much more logical and rational about this value, which is also proven by electoral statistics from 1990 to 2007. According to the analysis, the trends in the electoral preferences of Ukrainians are fairly stable despite the obvious differences and fluctuations.

Firstly, Ukrainian voters favor those candidates and parties that gravitate more toward the center of the political spectrum. For the more extremist political forces, regardless of whether they are leftist or rightist, real or fake, the only chance to overcome the passing electoral barrier is in the local elections but not in the national ones.

Secondly, the average Ukrainian voter tends to vote for the more recognizable candidates. The best chance for a candidate to become familiar and recognizable is to work in the government.

As far as electoral preferences are concerned, the Ukrainian citizens try their best to secure themselves against any sorts of unwanted surprises. More than anything, they want stability and predictability. The only regional differences in electoral behavior lie in the interpretation of extremism. In the East, extremism is associated with nationalism, and in the West, with communism.

The Soviet propaganda had done its best to demonize "nationalism" by labeling it as the antithesis of stability, the catalyst of national intolerance, the analogue of fascism, etc. and nationalism is unknown to the larger part of the Ukrainian society as a synonym to national liberation movement

and as an ideology of the nation-state ("nation" here being used in political sense rather than in the ethnic one).

The authorities have repeatedly used the strategy of deliberately manipulating the feelings of security of the Ukrainian voters in 1999 and 2004. The presidential campaigns were modeled in such a manner that the candidate opposed to the authorities would appear an "extremist"-either a communist or a demonized "nationalist". Such manipulative strategy could be successful as long as security was the most cherished value for Ukrainians. It could not guarantee absolute success, though, since the understanding of what danger is varies from one region to another.

However, there has been some shift in perception of the term "nation". In 2004 Viktor Yushenko who was then running for President was widely using the term "Ukrainian nation" when addressing his supporters, and this did not prevent him from winning the election. Since then, the term nation as a political and not just an ethnic community has become more popular.

The importance of security as a value also shows in the attitude of Ukrainians toward other ethnic groups. As of early 2006, there was a tendency for rising xenophobia in Ukraine. However, it was not so much the result of ethnic prejudices but rather of external threats related to globalization, such as terrorism, AIDS and avian flu epidemics, etc. Therefore, Ukrainians distance themselves mostly from the social and ethnic groups which in their minds are associated with these particular threats.

Thus, the question arises: what price are Ukrainians willing to pay for their security? Does it include giving up their identity, in other words, would they be ready to dissolve in a bigger supranational alliance which would guarantee them a higher level of security? Poll results suggest that giving up their identity is unacceptable for the overwhelming majority of Ukrainians.

As a matter of fact, identity and security should be viewed in close connection as fundamental values. According to sociological data, residents of different regions may differ in their interpretation of Ukrainian patriotism, but they share what all of them can take pride in-a high level of security and social protection, and their country's internationally acknowledged achievements.

Since 2000, the share of people who think or fear that Ukraine might "vanish as an independent state" or "become an under-developed appendage to Russia" has been decreasing. In 2005 such people made up 2.9% and 2.3 % of respondents, respectively.

It should be noted that the vision of Ukraine as a democratic European state is most popular. The share of "Euro-optimists" is somewhat smaller in the East than it is in the West, but still, it remains fairly stable nationwide.

It is important to evaluate the degree of how strongly Ukrainians share European values not just in terms of wishing for a European future but in a more practical sense, i.e. in their daily life and behavior.

From the point of view of political science, the main condition for effective democracy is a high level of "anonymous trust", i.e. if the citizens have a high degree of trust in state, economic, and civil institutions the democratic procedures will be more effective and the potential threat of authoritarianism will go down.

It would be productive to compare the indexes of anonymous trust in the European countries and in Ukraine.

According to the results of the Eurobarometer survey of 2004, the level of such trust among the citizens of the EU was high. The highest level of trust was accorded to the army (69 %), charity organizations (66 %), police (64 %), TV (59 %), the European Union (50 %) and the United Nations (54 %); it was lower for religious institutions (46 %), trade unions (39 %), and the lowest confidence was given to national parliaments (38 %), governments (34 %), large companies (31 %) and political parties (17 %).

In Ukraine, the hierarchy of trust displayed toward state and civil institutions looks different. In January of 2006, the Church took the top position (57.9 %), followed by the Armed Forces of Ukraine (47.8 %) and mass media (39.7 %). What is disturbing, however, it is the fact that many key state institutions are trusted by less than one third of the citizens of Ukraine, namely the National Bank (31.2 %), the Government (27.6 %), the Parliament (25.3 %), militia (25.2 %), local authorities (22.8 %), and courts (20 %).

Clearly, the level of anonymous trust is substantially lower in Ukraine than in the EU, and the high-ranked Ukrainian institutions are barely on par with the average European figures.

At the same time, the level of trust in the political parties is low both in Ukraine and the EU-under 20 %.

The level of anonymous trust is uniformly low in all the regions of Ukraine, although in many cases it is even lower in Galicia and Western Ukraine than in the Donbas region and Eastern Ukraine.

As far as the future of Ukrainian democracy is concerned, it is very alarming that the level of trust in Ukrainian political leaders is higher than in the state institutions and the parties they represent. The popularity of Ukrainian parties and blocs is based primarily on their leaders' charisma, not on their political programs.

The Ukrainian political class is still structured in the manner similar to large clienteles based on personal relations, i.e. the system inherited from the Soviet Union and the Russian Empire. Since personal relations are often based on the regional principle (which was common practice yet in the Soviet era) the prevalence of the "patron-client" relations in politics factors heavily in the strong role regionalism plays in Ukraine.

The dynamic change in the level of trust took place in the first few months following the Orange revolution. For the first time in the post-Communist history of Ukraine, there was a marked increase in trust given to governmental and political institutions. It seemed that a radical change in the trends of development of the Ukrainian public politics was under way; but it never happened because of many reasons. As President of Ukraine Viktor Yushchenko put it, "Many faces have changed in the administration, but the face of the administration has changed very little".

In 2006-2007, the system of political power continued to rebuild the old patrimonial-clientele scheme, only it became worse. This is why the society still relies on the political leaders, and the level of anonymous trust is not growing.

In the beginning of 2005, Ukraine became a member state of the European Social Survey which made it possible to thoroughly compare the values of Ukrainians and of other European nations. The results of the survey point at the prevalence of security considerations over other values among Ukrainians. Judging by that data, Ukrainians are generally cautious, dependent on protection provided by the state, conservative, and afraid of social reprimand. In this regard Ukraine differs from the majority of the European nations where individualistic values prevail. This would not be much of a problem unless that conservatism was undermining the ability of the society to change. Ukraine is trailing far behind most European countries in terms of values related to flexibility, and social and economic innovations.

However, the peculiarities of the Ukrainian world outlook should not be overestimated. According to the same survey, many other countries that either share a common Christian Orthodox, or East European, background (Greece, Bulgaria, Romania), or the heritage of the communist regime (Poland, Estonia, Slovakia, Hungary), or are traditionally very conservative (Ireland, Portugal) showed results that were not much different from those of Ukraine.

It should be mentioned that the biggest regional differences can be found not between the East and the West of Ukraine but between the West and the central regions. People in the Western regions are most open for change, very much unlike people in the central regions. From the point of view of dedication to the European values in daily life, people in Western Ukraine come the closest to most European countries, people in the central regions show the least dedication, while people in Eastern Ukraine are somewhere in between the two. It is also important to point out that there is a significant difference between the younger and older generations of Ukrainians, and this difference is in favor of the Europe-oriented Ukrainian identity. There are no substantial differences between young people aged 15 to 24 in Ukraine and in other European countries<sup>2</sup>.

Values of all the societies and civilizations change throughout their history. Traditional social values are superseded by values of industrial societies. Since the late '50s, there has been much talk of the

<sup>2</sup> Volodymyr Mahun,, Maksym Rudnev. *Life Values of the Ukrainian Population in the European Context. Article One // Public Opinion Bulletin. - 2007. - № 3; Life Values of the Ukrainian Population in the European Context. Article Two // Public Opinion Bulletin.. - 2007. - № 4.*

so-called post-modern or post-material values such as tolerance, responsibility for the environment, creative realization, etc.

Owing much to globalization, secularization, increase in consumer desires, and the collapse of the Communist system, a liberal optimistic scenario of "the end of history" was created. According to the scenario, post-modern values would spread all over the world, while national, religious, and other differences would diminish. There was also a strong belief that effective political management would be sufficient for resolution of conflicts between groups of people who cherish different values. However, such simplified concepts of future turned out to be only an illusion, which became evident on September 11, 2001.

Values occupy a central place in modern political analysis. Furthermore, there is multiple proof that traditional values do not die out but rather demonstrate an extraordinary durability and adaptability. Obviously, the correlation between the traditional, industrial, and post-modern values can determine the future of the country.

What is so specific of Ukraine is the fact that its citizens profess values that come from both the West-European and the East-European civilizational zones, coupled with the heritage of totalitarian past. Under such unique conditions, the world experience cannot help forecast Ukraine's progress on its way toward Europe.

But the fall of communism and the independence became the "point of no return", and further movement toward European values is inexorable. The first argument in favor of such an optimistic scenario is the results of sociological surveys concerning values of the young generation. The second argument would be the dynamic of formation of values and their transformation toward European values among the people in Central and Eastern Europe as a result of deliberate national identity policy.

Ukraine should support the society in its search for one integral Ukrainian identity. Therefore, the state policy must be grounded on common values shared by all of the Ukrainian society and not on specific groups' interests.

As far as the national interests are concerned, the advantages of a policy that is based on such fundamental values as identity and security are evident. By taking this way Ukraine will find the ground for modernization of the country and implementation of the vital reforms.

In order to implement that policy, decision-making has to be based on a balanced humanitarian state policy, and development of a diverse but still integral national cultural and communicational environment.

As distinguished Ukrainian historian Lysyak-Rudnytsky once said, "You need a special outlook to have the monuments to both Charles I and Oliver Cromwell in London. This does not mean you cannot criticize individuals, groups, or ideas, or to take one of the opposing sides, but it requires an all-encompassing approach to make heritages and achievements of the past and present the legacy of the whole nation."



Ukraine:  
**processes, results,**  
prospects.

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**THE CHALLENGES OF POLITICAL REFORM  
IN UKRAINE**

Ukraine: processes, results,  
**Prospects.**

Ukraine critically needs to form its own political system that would ensure implementation of the national interests. The process is still far from completion. The maturity of Ukraine's political system is assessed as the ability to identify national long and short term objectives and tasks, and to develop the strategies for implementation, as well as the scope of implementation.

The criteria of Ukrainian political system's efficiency include the following: ensuring of independence, sovereignty and territorial integrity of the state; modernization of the nation, with attainment of the international and European political, economic and humanitarian standards; realization and safeguarding of the social values, including freedom, justice, solidarity, respect of human dignity and human rights; shaping the system of political leadership.

Another generally accepted international criterion of the efficiency of a democratic political system is its perception as legitimate by the citizens, which means the presence of the rule of law, political stability, ability to overcome conflict-generating developments, absence of violence, an optimal model of power in terms of separation of authority between the branches of power and between the central and local government bodies, ability of the general public to influence the formation of government institutions and accountability of such institutions to the citizens, competence and professionalism of public administrations, and counter-corruption actions.

According to sociological polls, citizens of Ukraine assess the efficiency of the political system through the prism of increasing standards and quality of life, opportunities for individual progress, and the authorities' capacity to safeguard civic rights.

Polls have shown, in particular, that Ukraine features a gap between the values and objectives declared by the state and the really existing practices. The level of public satisfaction with how democracy is functioning in Ukraine remains very low: in 2006, 61 % of the recipients were unhappy, in 2006 - 59 %. In 2007, citizens of Ukraine negatively assessed their living environment: every second Ukrainian thought it was bad or very bad, 31.4 % deemed it normal or rather normal<sup>3</sup> while almost 60 % admitted they were not happy with their own capability to influence the situation.

The extent of credibility the citizens offer to power institutions is an important indicator of a political system's efficiency. In 2007, the efficiency of the authorities was not assessed highly: 18.2 % were satisfied with how Mr. Yanukovich's government managed the internal situation, 11.4 % were happy with the President's performance, 6 % - with the work of the Verkhovna Rada, 10.6 % - with that of the local governments, 5.7 % - with the functioning of law enforcement and tax administrations. The level of popular trust in the Verkhovna Rada and Cabinet of Ministers of Ukraine has diminished. In the opinion of 62 % of the citizens, the Ukrainian government failed to fulfill its pre-election promise of improving the life of the people "right now". Most of the polled admitted that a real influence on the situation in which they lived was exercised by Prime Minister Yanukovich and his Government (76,2 %), the Parliament (74,7 %) and President Yuschenko (70,7 %). The opposition (BYUT and others) and the political and economic clans trailed behind with 63.3 % each, closely followed by the local institutions of power (61,3 %)<sup>4</sup>.

The level of credibility accorded to the Ukrainian mass media and non-government associations by the population considerably decreased in 2007: if earlier the citizens had rather trusted those institutions, at present the balance of trust and distrust bends towards the latter. This results in poorer level of information exchange between the authorities and the population and leads to a worsening of the quality of their interaction. 72 % of Ukrainians claim that over the last year frustration in the society has grown; one out of every two feels dissatisfied, and nearly 39 % feel at a loss. Against this backdrop of total unhappiness with performance of the authorities, the citizens are showing a lively interest in politics (81,6 %).

This data proves the dominance of an ambivalent public attitude to the Ukrainian administrations: on the one hand, the citizens give a low assessment of the powers-that-be, on the other hand, they recognize that the interface with them is a prerequisite for any life improvement.

Evidently, such appraisals are caused by the present condition of Ukraine's political system that still displays features of the post-Soviet model of social and political life: excessive centralization of

<sup>3</sup> According to of monitoring polls conducted by the Institute of Social and Political Psychology of the Academy of Pedagogical Sciences of Ukraine, by representative selection method. The latest poll took place on May 21-25, 2007.

<sup>4</sup> *Ibid.*

power and public regulation of the economy, a prosecutorial system of justice, and so on. This form of political system is not able to secure modernization of the country or implement all-round reforms necessary for proper functioning of any modern civilized society, and it fails to reliably safeguard the rights and freedoms of the citizens.

Ukraine goes by the European civilization model. Therefore, the development of civil society institutions, political parties, freedom of expression and mass media become crucial for the political system's efficiency. Such development is a complex and multi-dimensional task.

In 2007, the political system of Ukraine did not create any mechanisms for settling crises in all areas of public life. The obsolescent structure of the economy with low innovational dynamic is still in place; the demographic crisis is under way and aggravated by a number of negative factors (growth in incidence of tuberculosis, HIV/AIDS, cancer, etc.); the environment is degrading because of ineffective use of natural resources, and the modern Ukrainian identity, conforming with the European civilizational standards and social development needs, is shaping itself at a slow pace.

In such a situation, the efficiency of public administration becomes key for the future development of Ukraine. It is becoming increasingly evident that the model developed through adjustment of the Soviet style of administration to democratic requirements and political compromises does not meet the present needs of the national and social progress. The experience of 2005 - 2007 evidences the failure of attempts at reforming this system on the basis of 2004 constitutional changes.

Nevertheless, Ukraine has positive prerequisites for further democratic changes and improvements within the political system: the power can no longer stay in the hands of one person or branch, the society no longer accepts political corruption, there is no way of distorting the popular vote (of which the results of the early parliamentary election are a convincing proof), and the Ukrainian people have demonstrated the force of their political identity many times between 2004 and 2007. This tendency was also vividly revealed in the process of settlement of the 2007 parliamentary crisis and, particularly, in the process of preparation and conduct of the early election to the Parliament. Practical elimination of state control over mass media is another positive factor and precondition for establishment of a truly democratic political system.

The efficiency of a political system may be ensured only through democratic procedures that imply the existence of a multi-channel system of direct and implicit feedback from the civic society. After 2004, the Ukrainian political system has shown a certain level of protection of the democratic procedures from any attempts at replacing them with authoritarianism, use of force, and other means of political influence. Therefore, an important precondition for the political reform lies in the empowerment of civil society institutions to secure communication between the state and its citizens.

The last year developments also revealed a number of deficiencies of the political system as a whole and the critical condition of some of its components that called for large scale reforms.

After the reviewed Constitution of Ukraine took effect, the political system showed an ever growing lack of balance caused by irregular distribution of competencies and procedures for operation and interaction of the state agencies. The political stability of the nation feels a destructive effect of attempted redistribution of the areas of influence and competences of certain government agencies by way of unconstitutional decisions.

The deepening disbalance of power was accompanied in 2007 by the growing conflict nature of the political milieu, which is also explained by the absence of mature democratic traditions in political dispute settlement. Increasing conflict exposure of the domestic political situation stemmed from a fundamental controversy between the need to modernize the nation and the low speed of public, political, social and economic reforms in 2006 - 2007.

The task of increasing the efficiency of power bumps into other hurdles that lower the administration's credibility. Some of them are:

- Absence of effective mechanisms of responsibility of the ruling political forces and their accountability to the citizens;
- High conflict capacity of the political elite and the society because of different value vectors;

- Lack of transparency of central and local public administration procedures as a result of poor political and administrative culture of public officials and low level of law-abidance; and
- Corruption, including political corruption, at all tiers of power, as an outcome of adjustment of the economic, social, and civic institutions to the environment where the society's political system fails to properly perform its coordinating, regulating and mobilizing functions.

Crisis phenomena and other negative processes that surfaced in 2007 generated new threats to Ukraine's national security:

- Depreciation of fundamental democratic values;
- Dispossession of the nation's development orientations and, as a result, of the chances to take a proper place in the global and European community because of the low level and poor quality of strategic planning on the part of institutions vested with state power; and
- Degradation of the national security policy, with the government's inability to enforce the law-embedded national security mechanisms, namely - by means of Euro-Atlantic integration.

The state power that is lacking in democracy and pursues opposite courses of action is unable to safeguard the rights and freedoms of its citizens, reach the European standards of life, or provide a proper place for Ukraine in the modern globalized world.

In general one may draw a conclusion that the greatest threat to the political system of Ukraine and to the nation as a whole in the year 2007 was the lack of consensus between the principal political forces regarding the content of Ukraine's national interests, ways of the country's modernization, and strategies of implementation of the national objectives and fulfillment of the national tasks.

Apparently, only an efficient system of power that is able to start reforms in all the vital spheres of social life and modernize the country can duly respond to the contemporary challenges and threats.

Creation of the Parliament coalition of democratic forces (OU-PSD plus BYUT) in December 2007 opened up new vista for the development of parliamentarianism and implementation of a comprehensive modernization strategy for Ukraine.

Thus, the principal task for today is to continue the establishment of an efficient democratic administration that will be united in promoting the national interests of Ukraine in domestic and foreign politics.

## **1.1. THE UKRAINIAN POLITICAL REFORM IN 2007: THE ISSUES OF EFFICIENCY**

### **1.1.1. Political Institutions and Processes**

Upon effect of the Constitutional changes on January 1, 2006, all attempts at forging interaction between institutions of power slammed into multiple violations of the political responsibility principle within the Parliament as well as into large-scale manifestations of inefficient management in the operation of public administration bodies at all tiers.

However, in spite of essential constructive shortcomings, the new Ukrainian model of power is now in operation, which emphasizes the need for its further reform to make it more efficient and democratic and to bring it into harmony with the accepted European standards.

In this context, it was especially important to watch the efficiency of the parliamentary coalition formed according to the outcomes of 2006 election and of the coalition Government.

The avenues of action of the Cabinet of Ministers, support of such action and adoption of relevant legislation depends, in the first place, on the availability of the Government Action Program the implementation of which requires the effort of all the political forces that have won the election and work in the Parliament majority and in the Government positions. Part 5 of Article 114 of the Constitution reads that "the Prime Minister of Ukraine shall manage the work of the Cabinet of Ministers of Ukraine and direct it for the implementation of the Action Program of the Cabinet of Ministers of Ukraine adopted by the Verkhovna Rada of Ukraine." Consequently, if the Program does

not exist there is no way to judge how efficiently its implementation proceeds.

Specified objectives of the coalition of factions that form the Government are also laid down in the agreement that establishes the coalition. The Agreement on establishment of the Anti-Crisis Coalition signed on July 14, 2006, enclosed the priority areas in reforming the state and the society. At the same time the content of the future administrative work of the Cabinet, legislative changes and the vision of what the nation was to become as a result of the government reforms were presented in a manner so unsophisticated that it denied any validation in terms of putting such plans into life.

It is absolutely clear that such avenues of activity remained mere declarations in view of two features that adequately characterized the activity of the Parliament majority and the Government formed pursuant to the outcomes of the 2006 election. First, there was no strategic approach to implementation of the reform and no system in resolving the outstanding issues of the national, social or economic development. Second, energy and effort were mostly focused on the widening of the coalition's own power and augmentation of its resources.

Those political practices led to a growth of political tension, confrontation of the institutions of power in the legal realm, and loss of points of reference in the strategically significant areas and directions of the national politics.

One of the key reasons of such situation was the inefficient support of the Government by the legislators. Adoption of the Law of Ukraine "On the Cabinet of Ministers of Ukraine" became a convincing example of miscommunication and overt institutional altercation between the bodies of state power. The legislative act was supposed to regulate the activities of the highest executive authority and to pillar its interaction with the other branches of power. In reality the passed law just deepened the disbalance in the political system and triggered a number of crisis developments within public administration. The Law apparently contained multiple clauses that clashed with the Constitution, disfigured the structure of checks and balances in the interaction of public authorities, and illustrated the excessive of power that the parliamentary-governmental coalition had concentrated. The Law also failed to effectively guarantee the efficient performance of the Government's key function - development and implementation of the national policy. The law was silent about improvement of the quality of administrative and other public services and thus could not bring Ukraine closer to due governance standards.

It should be noted that the Law "On the Cabinet of Ministers of Ukraine" remained de facto the only legislative act passed during the Anti-Crisis Coalition's work though the country badly needed to systematically regulate the legal relations between the top levels of state power. The coalition ignored the need to legislatively regulate the activity of the Verkhovna Rada of Ukraine, of the ministries and other central executive agencies, the principles and mechanisms of their interaction with the President of Ukraine and with the consultative, advisory and other auxiliary institutions and services established by the Head of the State.

In the 15 months of its activity, the parliamentary-governmental coalition managed to statutorily regulate but one procedure, the early termination of authority for the Crimean Parliament members and local councilors (Law of Ukraine "On Amendments to Specific Laws of Ukraine on the Status of Deputies of the Verkhovna Rada of the Crimean Autonomous Republic and of Local Councils", adopted by the Verkhovna Rada on January 12, 2007).

As a whole, some 240 laws were adopted in the time span between early August of 2006 and the beginning of October of 2007. Yet, putting aside the laws amending other laws (some of which were several lines long) and acts on ratification of international agreements, and counting only the primary laws that regulate specific areas of social relations, it turns out that the Parliament passed not more than two and a half dozens of bills during 15 months, most of which had nothing to do with the reform of the nation's economic and political systems.

The current European model of separation of powers envisages cooperation of powers, primarily in the field of legislative drafting. Ukraine saw no cooperation of this kind in 2007, although the same political forces were in control of the legislature and the executive. For instance, out of 3,314 draft laws registered by the fifth Rada by October 15, 2007 only 408, or around 12 %, had been initiated by the government. In developed democracies, it is the government that chiefly develops and submits draft legislation.

By and large any efficient legislative and regulatory activity is possible only on condition of close cooperation of the Parliament, Government and President. The principles of cooperation between the parliamentary coalition and the government that it forms undeniably require a search of compromise prior to decision-making, up to the moment of adoption of the Laws of Ukraine by the Parliament and endorsement of Government resolutions. This behavior is an accepted practice in the countries with long-stable democratic traditions. For this reason the presidents of such countries very seldom veto parliament-adopted laws or suspend government decisions.

Ukraine is showing quite an opposite tendency: by January 2007, the President had vetoed 35 new laws, or one fourth of their total number. This figure proves the absence of efficient interface between the majority of the Verkhovna Rada of the 5th convocation and the President of Ukraine at all phases of the legislative process.

The President of Ukraine, in view of the need to secure the national interests, was bound to apply his constitutional authority to suspend government acts and submit them to the Constitutional Court for constitutionality checks. The President used this authority for the first time on October 16, 2006, and by early October of 2007 he had issued 35 Decrees suspending resolutions and ordinances of the Government.

The lack of interaction and of the readiness for cooperation displayed by certain public agencies threatens the very fundamentals of national security and complicates implementation of the key tasks of the country's domestic and foreign policy, including the ones that are stipulated in the relevant laws. This was exemplified by the past coalition when it ignored the Euro-Atlantic integration avenue in Ukraine's foreign politics, which was clearly seen in the public statements made by Parliament and Government representatives and in the administrative and legal work of the coalition.

Thus, the inadequacy of the current Constitution created systemic prerequisites for emergence of conflicts between the bearers of higher authority in the nation. The transformation of permanent conflicts into a deep political crisis could have been avoided if the Parliament and Government had expressed any political will and wish to compromise with the President. Such will and wish did not come true. Instead the parliament coalition and the government kept on visibly concentrating the power and gradually restricting the ability of the President to exercise his own authority, thus diluting his political influence. These acts of the political forces became the main reasons for the subsequent political crisis in Ukraine.

In order to defuse the political crisis and reinstall the legitimacy of the key political institutions by popular vote, on April 16 President Yuschenko issued his Decree "On early termination of the authority of the Verkhovna Rada of Ukraine and conduct of extra-ordinary parliamentary election".

### **1.1.2. Early Election to the Verkhovna Rada of Ukraine**

The early parliamentary election became a nation-wide plebiscite of Ukrainians' confidence in the democratic procedures that had emerged as the main instrument of political conflict settlement in the country. This election was another step in the enhancement of democracy in Ukraine, it evidenced the presence of free competition in the political system of the nation and demonstrated the growing weight of public opinion as well as political responsibility of the parties and blocs.

The President of Ukraine's decision to conduct the early election to the Parliament in 2007 unblocked the political process and prevented transformation of the crisis into a national social and political conflict. This was a lawful decision: under the Constitution the President "exercises control in the sphere of national security" and, therefore, in accordance with the legislation, he considered the early termination of the Verkhovna Rada's authority as the only possible resort to neutralize the threats to the national security of Ukraine. This step of the President of Ukraine was aligned with the nature and scale of the national security threats.

The election was held on the basis of a compromise, showing a high level of responsibility of the principal parliamentary parties and their readiness to assume political leadership. The compromise was formalized on May 27 in the joint statement of the President of Ukraine, Prime Minister and Chairman of the Rada "On immediate measures to settle the political crisis through the early election to the Verkhovna Rada of Ukraine". The election was scheduled for September 30, 2007. In further-

ance of the joint statement, the President issued, on June 5, the Decree "On early election to the Verkhovna Rada of Ukraine in conjunction with divestment of the Verkhovna Rada of Ukraine and early termination of its powers" (with amendments of July 31).

This created a precedent when the conflicting state institutions and principal political forces avoided a severe confrontation and adopted a joint decision to address the people as the bearer of power and ask the voters to resolve their controversies. Although preceded by a political crisis, the election campaign of 2007 did not grow into a civil collision.

Moreover, during the race one could observe a series of positive socio-political tendencies.

Political preferences of the voters became less regionally polarized in the course of the election campaign. As a rule, parties lost some of their vote in the traditional strongholds and made the losses up by gaining more votes in the regions earlier dominated by the rivals.

The election process in Ukraine became sovereign from external influences. Unlike the previous campaigns of 1990 - 2006, the impact of other states on the election process was minimized. All the leading nations and international organizations distanced themselves from the election process and stated their intention to work with those political forces that the citizens of Ukraine would elect.

Another indubitable accomplishment of the election campaign was that the political parties mobilized their supporters to participate in organization of the voting and oversee the vote counting. The key political forces conducted their own exit polls to preclude possible falsification of the election results. The use of such mechanisms of mutual control deprived certain political parties of the opportunities for political speculation about the election results and proved the free and transparent nature of the election process as a whole.

The early parliamentary campaign also revealed a number of negative trends and threats to consolidation of democracy in Ukraine.

The pre-term election to the Parliament of Ukraine was a contest between political leaders and not political platforms of national development. No party or bloc furnished correct data and accurate calculations on the resources they intended to round up for the implementation of pre-election programs. Experts from the Institute of Economic Studies and Political Consultations estimated prior to the election that fulfillment of the pre-election promises by the Party of the Regions would additionally require from 55 to 200 billion UAH, those of Yuliya Tymoshenko's Bloc - 100 billion, Our Ukraine - People's Self-Defense Bloc's - also 1 billion, of the Communist Party of Ukraine - 290 billion, and of Volodymyr Lytvyn's Bloc - 190 billion UAH.

Party leaders demonstrated their inability to agree on the fundamentals of the domestic and foreign politics. No work was done to outline alternative home and foreign policy implementation strategies understandable and acceptable to the majority of citizens. All the principal political parties throughout the election campaign acted only as vehicles of realization of their leaders' political interests and as means of mobilization of the electoral support.

Political communication between the political forces mostly occurred in an atmosphere of conflict. Controversies between political leaders extended onto the masses of their supporters and increased political tensions in the society. Lack of competitive ideas forced the political groups into applying manipulative campaigning technologies. One such example was the Regions' initiative to hold an all-Ukrainian referendum of the second official language status for the Russian language.

The course of the early parliamentary election revealed that the civil society had no efficient mechanisms of influence on the political forces in order to oversee how they abide by their own pre-election commitments upon publication of the election results. This, particularly, has to do with the formation of the Parliament coalition, appointment of the Government, configuration of the coalition's relations with the opposition, and development of the strategy and Program of the Cabinet of Ministers.

Elections are losing their importance as a mechanism that fosters the standards of responsible national politics. Manipulations with the public opinion and sweeping resort of political leaders to social populism coupled with the lack of party ideologies put the voters into a situation where no real choice exists. This forces the electors to vote for "a lesser evil" rather than the party or its leader that meets

the voter's interests. In other words, popular expectations about the administration efficiency get considerably lower. As a result, it enables those politicians who hold the power to regularly infringe the laws and the Constitution with the pretext of protecting the voters' interests.

The election campaign emphasized the problem of non-transparent funding of the parties and their direct dependence on big capital. According to the Central Election Commission's official data, the total volume of election funds of all the twenty parties and blocs that took part in the race amounted to over 580 million UAH, though independent experts (Committee of Voters of Ukraine, Goodpoints Auditors and others) estimated the cost of the campaign for these parties and blocs at 2 billion UAH. Political advertising in mass media topped 353 million UAH, or 60 % of the aggregate funds of all the racers.

Therefore, the scale of the real campaign costs and the shadow sources of party funding reveal the danger of the political parties' dependence upon business entities and possible loss of their democratic nature in the present-day Ukrainian society.

Dominance of big business in the political parties has generated commercial attitudes in their relations with the media that are primarily viewed as powerful machineries for mass manipulations. Most of the media in their turn have accepted such format of collaboration with the political parties in spite of the standards of journalist social responsibility. As a result, instead of objectively covering the campaign the media, especially radio and TV, flourished with hidden political advertisings and commissioned reports.

In the course of the election campaign, the political forces engaged the law enforcement agencies. An example of that is the ordinance of the Ministry of Internal Affairs assigning its local units the task of collecting information on the citizens who temporarily left Ukraine or permanently reside abroad. In so doing the Ministry was guided by the Cabinet of Ministers Resolution № 885, of June 27, 2007, "On some measures related to improvements in the registration of citizens for purposes of proper enforcement of the laws of Ukraine". This information could be used during the election campaign by the staffs of those political forces whose representatives prevailed in the law enforcement administration to manipulate the voter lists. Such actions on the part of the government directly infringed the constitutional right to privacy (Article 32 of the Constitution of Ukraine) and freedom of movement (Article 33).

This urged the President to suspend the named CMU Resolution and raise the issue with the Constitutional Court of Ukraine (CCU). Other unlawful actions of the Cabinet later compelled the Head of the State to suspend, in September 2007, two other resolutions of the Government that vested executive authorities with illegitimate powers of controlling people's vote.

The election also showed the drawbacks of the electoral system and the threats stemming from the practice of certain political forces to amend the laws to suit specific election campaigns. The nature of amendments made on the eve of the early election demonstrates that the threats to the electoral system exist not only in activities of political entities or public authorities but also at the level of legislative standards.

Consequently, the present election system still remains a factor of social and political tension and provokes the political forces to use regional differences as a weapon of political struggle. Political parties are not interested in promoting the values that can unite Ukraine as they are well aware that by shedding their key confrontational slogans they can lose electoral support at the "home base" to a degree greater than the gains they can possibly get in the rivals' playing fields.

Therefore, the pre-term election of the Parliament prevented usurpation of power and brought the structure of the highest legislative authority in compliance with the will of the people. It also highlighted the shortcomings of the constitutional model of power in Ukraine. The settlement of the most dramatic phase of the political crisis by way of election proved a necessary although insufficient condition of Ukraine's transition to the construction of modern European model of political, social and economic development.

This is why the present agenda features the task of setting up stable rules for co-existence and competition of the political elites and for constitutional regulation of the process of acquisition and exer-

cise of power. This calls for consolidation of the efforts of the executive and legislative powers with regard to improvement of the Constitution of Ukraine, adoption of a number of constitutional laws, and reform of the laws on elections as well as on political parties and the judiciary.

### 1.1.3. The Constitutional Process

The process of reviewing the Ukrainian Constitution in today's political situation would require civic consensus and unification of domestic political elites on the basis of the national interests. The would-be constitutional changes should primarily amend the present Constitution in the following areas:

- Separation of authority and responsibilities and creating a system of checks and balances between the President, Parliament and Government concerning the development and implementation of the national policies;
- Procedures for operation and early termination of authority of the Verkhovna Rada of Ukraine;
- Procedures for establishment of the parliamentary coalition and rules of operation for parliamentary factions;
- Procedures for appointment and replacement of the Government members;
- Deputies' immunity;
- Foundations of the administrative-territorial division and local self-government;
- Mechanisms and procedures for national and local referenda and further implementation of their results.

The constitutional process should adequately reflect the implementation of the democratic model of state power and public administration.

Such process is important as the progress of constitutional reforms must reflect the citizens' interests, promote their fundamental political rights and freedoms, minimize the estrangement of broad public from the government and, in the long run, lead to a considerable increase of the level of democracy in the country.

At the current stage of the national development, a new political and administrative model should be devised with systemic qualities that meet the present and future needs of the country. The constitutional review would thus require participation of academicians, experts, and broad public circles. The new model of power should not only become efficient and modern, it should reflect the expectations and values of the majority of citizens. In other words, to be legitimate the model should be unanimously supported by the elites as well as understood and approved by the population. The new Constitution has to lay the foundations for national consolidation and bring back people's trust to the administration.

At present most Ukrainians (63.9 %) give a negative answer to the question whether they exercise any personal influence on the social processes around them. This is mostly explained by the lack of any real mechanisms for such influence and by the popular attitude that "this should be left to those who know how to go about it." At the same time only 8 % of Ukrainians believe that the country respects people's choice in between the elections. This can be a reason why the public opinion supports the constitutional reform idea.

The vector of development of public perceptions regarding an efficient model of political power in Ukraine does not coincide with the direction of the Constitutional reform initiated in 2004: the share of those who prefer the models of presidential or presidential-parliamentary republic is growing (41.6 %), while the share of those who favor the parliamentary or parliamentary-presidential governance does not change, constituting 36.1 %. However, a parallel process is regional polarization of the public opinion, and, accordingly, most of the citizens in the South and East tend to opt for the parliamentary or parliamentary-presidential model, while the residents of the Center and West of Ukraine incline towards presidential or presidential-parliamentary rule.

The population of Ukraine is pronouncedly unanimous regarding the procedure of amending the

Constitution: 58 % think a national referendum should discuss it, and 62 % of the population intend to take part in the referendum if it is conducted.

In view of the need to immediately regulate the controversial and imperfect provisions of the present Constitution, the President of Ukraine has used his legal right to initiate the process of improvement of the nation's fundamental law. His Decree № 1294/2007 of December 12, 2007, mandated the establishment of the National Constitutional Council tasked to draft the concept of a systemic review of the constitutional regulations in Ukraine and develop a draft version of the revised Constitution. The Council will be manned with account of proposals to be made by the political parties and their electoral blocs that have factions in the Parliament, other political parties, the Crimean Parliament, Oblast Councils, Kyiv and Sevastopol City Councils, the National Academy of Sciences of Ukraine, and the national human rights NGOs.

This approach will enable the stakeholders to reach accord on the content of the constitutional reforms through political compromise, while a broad public discussion of the proposed changes will ensure a greater legitimacy of the eventual constitutional amendments.

The roadmap of the constitutional reform should lead toward acceptance and support of the reform by the political circles and the society. It should also promote Ukraine's international reputation. In this respect, this roadmap must meet a number of key requirements.

Firstly, the roadmap for the constitutional reform must be lawful. The principle of the rule of law means abidance by the amendment procedure laid down in Chapter 13 of the Constitution. Lawfulness is to be the pillar of the reforms in the present Constitution of Ukraine as of the very early stages in the process. For this reason the legislation has to regulate the matters of:

- a) procedures for development and process of the constitutional reform, and
- b) procedures for public debate of the new Constitution as drafted by the National Constitutional Council.

Secondly, the constitutional reform is to become an example of legitimacy in reforms. The reform process will be legitimate only if the authorities comply with the principles of efficiency and consistency in their actions, if both the parliamentary and non-parliamentary oppositions take active part in all stages of the process, and if the society gets proper access to a broad discussion of the reform. Legal regulations for the process of public discussion of the draft constitutional law will promote civic support of the reform.

#### **1.1.4. Reform of the Laws on Elections and Political Parties**

The Ukrainian electoral legislation requires crucial systemic changes which can only be accomplished on condition that the Constitution of Ukraine is amended. Any proposals to that effect should proceed from the European experience.

Reforms are to take place at two tiers of legislative implementation - constitutional and statutory-procedural ones.

The amended Constitution should prescribe different time frames for election to the Parliament of Ukraine and to the local councils. This will strengthen political responsibilities of the subjects of electoral process. This step is necessitated by the single chamber structure of the Verkhovna Rada, absence of the rules for revocation of the Deputies, and low level of political accountability to the voters.

The constitutional changes should go hand in hand with improvements in the Ukrainian election law. The Ukrainian electoral reform may proceed in the following directions.

Development of an Election Code. In view of the immaturity and unsteadiness of the Ukrainian political and partisan system the statutory regulation of elections and the reform of the election laws require further procedural development. To this end, and in spite of the general inertness of the electoral legislation, it is mandatory to include provisions of different election-related laws into a Code of election laws of Ukraine. The Code would, first and foremost, prevent any future intrusion into the Constitution and, additionally, would convert the domestic election laws into a separate area of

law able to properly react to any forthcoming political challenges.

Improvement of the system of unused vote distribution in proportional voting. Elections conducted under the proportional systems always imply the use of mathematical formulae to distribute the parliament seats between the political parties according to the received votes. In the event of a switchover from the single national multi-mandate constituency to a number of multi-mandate constituencies it would be expedient to replace simple proportional distribution with the Sainte-Lague divisor, or a modified method, which would increase the role of minor and medium-size parliamentary parties and eliminate the issue of major parties' over-representation.

Introduction of the system of national vote according to regional slates. The system of regional slates is one instrument for countering disproportional regional representation in the Verkhovna Rada. This system could solve one of the greatest problems - it would tighten the ties with the voters who, under the new system, could cast ballots not only for a certain political force but also for real people held in esteem in their regions. This innovation would stimulate the parties to review their procedures of compiling candidate lists and offer a strong motivation to include more candidates from the regions.

Establishment of differentiated electoral barriers for political parties and electoral blocs. In order to trigger augmentation of parties and achieve greater stability in the partisan system of Ukraine it appears feasible to retain the 3 % barrier for the political parties, and raise it to 5 % for the electoral blocs consisting of more than three parties, with another increase of 1 % per each new party joining the bloc.

The efficiency of an electoral system is directly related to the principal characteristics of parties as the main subjects of the electoral process, and to the activity of representative bodies of power formed in accordance with the results of their elections. It is crucial that, since 2006, the parties represented in the Parliament form the coalition majority, the Government, and the minority opposition, and in such capacity they act as major political institutions of the society.

Ukraine's party system presently features over 140 political parties registered by the Ministry of Justice. The analysis of their activity and of the relevant regulatory framework leads one to the conclusion that the political party system of Ukraine is yet fairly remote from the European democratic standards.

A lion's share of the discussions during the political crisis of 2007 had to do with compositional stability and efficient work of the parliamentary majority and the opposition. Sadly, the early 2007 produced a number of cases of political irresponsibility of Ukrainian Parliament Members and their intra-parliamentary migration.

The so called imperative mandate rule was to put an end to such practices. It rests on a wider interpretation of p. 2.6 of Article 81 of the Constitution of Ukraine according to which the authority of a People's Deputy of Ukraine elected by a party or bloc list shall be terminated early if he fails to join the faction of the party or bloc, or leaves the faction. However, such interpretation has generated criticism of the Venice Commission, and its implementation carries the risk of negative assessments of the future amendments to the Constitution on the part of the Council of Europe.

The competence to interpret p. 2.6 of Article 82 of the Constitution is vested with the Constitutional Court of Ukraine whose ruling will be a significant step in the constitutional development. However, taking into account the European experience, the settlement of this issue would require amending the laws of Ukraine that regulate political parties' activities and, at the same time, a system of intra-factional democracy would have to be set up through improvement of the Regulations of the Parliament of Ukraine and their upgrading to the status of the Law of Ukraine.

An examination of the constituent documents of various political parties reveals a very widespread practice: the regional organizations exert very small influence on the parties' internal procedures. They cannot but a) examine and assess documents and strategies offered by the party leaders, b) delegate their representatives to party congresses, with the right to vote, and 3) submit proposals as to candidates for Parliamentary elections, although the lists of candidates are approved by the party congresses. At the same time the procedures of slate making (including, specifically, development of

the lists of candidate members for legislative institutions of different levels, termination of MP's authority, election of the party's governing organs, and so on) are not prescribed either in the political party statutes or in the legislation. Such procedures could effectively promote consolidation of democracy.

All the aforementioned problems result from the inadequate law "On Political Parties in Ukraine" that fails to emphasize the requirement of internal democracy for political parties.

### **1.1.5. The Judicial Reform**

The rule of law as a constitutional principle in Ukraine fully depends on the efficiency of the judicial system. Ukraine needs a comprehensive reform of the judiciary to ensure implementation of the rule of law and to achieve fair, independent, efficient and accessible justice in accordance with the accepted international standards.

The President of Ukraine has clearly stated his position as to the judicial reform in the nation. The key tasks of the reform are defined in the Concepts for improvement of the judiciary to ensure fair justice in Ukraine in compliance with the international standards, approved by Presidential Decree № 361/2006 of May 10, 2006. However, no systemic changes in this branch of power have since occurred.

The present state of the system of justice substantially decreases the efficiency of human rights safeguards and discredits Ukraine in the eyes of the international community. The main issues in this domain are as follows:

- Lack of uniform application of laws coupled with corruption, which generates popular distrust of the system of justice;
- Inappropriate filling of judicial positions;
- Deficient management of courts and unauthorized impacts on judges in administration of justice;
- Inadequate funding of the judiciary, and
- Multiple failures to grant the right to defense and violations of time frames for hearings.

Although Ukraine has declared approximation of its legal system with the European standards as the priority vector of its development, the country still has a judiciary whose institutional characteristics confront those standards in many respects.

The factors that cause low efficiency of the judicial power include:

Excessive caseload for the judges which leads to delays in hearings, in contravention of the laws. In the first half of 2007, the monthly average of cases and case files per one judge of a local court largely grew and amounted to 155 instead of 127 during the same period in 2006. To remedy the situation Ukraine resorted to unprecedented measures. The Law of Ukraine "On Amendments to the Law of Ukraine "On the Judiciary" regarding cassation of civil cases" of February 22, 2007 envisaged handover of civil cases in cassation review and of cassation appeals not heard by the Supreme Court of Ukraine by January 1, 2007 to panels of judges of relevant courts of appeal, to be formed by the presidia of such courts. This measure can disencumber the Supreme Court of its undue burden for a while but will not solve the issue of excessive caseloads in the courts. Moreover, vesting of appellate courts with the authority of cassation will lead to accumulation of unconsidered cassation appeals.

Polarization of the judiciary, expressly manifested during the political crisis in the spring of 2007, when the courts did not become instruments of handling political conflicts in the legal dimension and of resolving disputes on the grounds of law. Concurrently a number of judges displayed their political engagements by unmotivated rulings, some of them with blatant violations of the rules of territorial and substantive jurisdiction. In this context it is paramount to identify the jurisdiction for decisions made by the Parliament and President of Ukraine.

The sphere of justice is getting not only politicized but also commercialized, which is seen in the attempts to "privatize" the courts. The so called "raider attacks" have become possible as a result of

unlawful court rulings and the Supreme Court's failure to ensure uniform application of the laws. In multiple instances the decisions of different judges of the highest judicial authority's Commercial Chamber were diametrically opposite in identical cases. In such an environment the Supreme Court can hardly ensure uniform judicial practices or, consequently, efficient protection of the human rights and freedoms, or the interests of the state. It goes without saying that local courts treat the laws arbitrarily and pass judgments at own discretion. For example, the hearing of cases about offenses punished by life imprisonment does not presently provide for the institution of appeal.

Therefore it seems feasible to create two other high specialized courts - for criminal and civil cases, and to form the Supreme Court by delegating 3 to 5 judges from high courts; then the Supreme Court would have 12 to 20 judges (instead of the present 89), similarly to the supreme judicial authorities in the United States (9 Justices), Japan (15 judges), India (18) or other countries.

Low level of enforcement of court rulings. According to the data of the Ministry of Justice as of September 1, 2007, the enforcement authorities enforced only 45 % of the total number of enforcement writs. In other words, more than a half of court rulings are yet to be enforced. The efficiency of the judicial system is directly dependent upon the enforcement of its decisions. Failure to enforce or enforcement delays were the grounds of most appeals launched by Ukrainian nationals to the European Court of Human Rights.

This situation has led to a drop in the judiciary's credibility within the society. According to 2007 all-Ukrainian polls the system of justice has the least trust amidst all other public institutions: courts are trusted only by 10 % of the respondents. Moreover, in June 2007 50 % of the polled citizens said that there was no real right to fair justice in Ukraine. In the first half of 2007 the share of complaints to the Cabinet of Ministers about actions of the law enforcement and judicial authorities increased from 15.2 % in the previous year to 17.2 %. Out of 56 thousand petitions to the Verkhovna Rada in the period from January through September of 2007, nearly 30 % had to do with issues of lawlessness and lack of legal discipline.

In order to raise the efficacy of the nation's policy of ensuring fair, independent, efficient and accessible justice, to harmonize the current legislation on administration of justice with the Constitution of Ukraine and requirements of the Council of Europe, and in furtherance of the Concept of judicial improvement and of the 2006 Action Plan for improvement of the judiciary and ensuring fair justice in Ukraine (both approved by Presidential Decrees), in 2007 the President of Ukraine submitted the following documents to the Verkhovna Rada for its consideration:

- Draft Law of Ukraine "On Amendments to the Law of Ukraine On the Judiciary of Ukraine" that suggests measures to streamline the judicial system in accordance with the requirements of the Constitution of Ukraine and relevant European standards, and
- Draft Law of Ukraine "On Amendments to the Law of Ukraine On the Status of Judges" that proposes to increase independence of judges, define a clear and transparent procedure of selection and dismissal of judges, establish mechanisms of remuneration for judges, and provide for other social guarantees.

Success of the judicial and constitutional reforms depends to a large extent on the efficiency of operation of the Constitutional Court of Ukraine as the only body of constitutional jurisdiction within the state power system. Inefficiency of the present Court as it strives to grant supremacy of the Constitution proves that problems exist in the work of the principal authority of constitutional oversight.

The Constitutional Court of Ukraine is to establish its status of the only body of constitutional jurisdiction in Ukraine that can rule on constitutional compliance (constitutionality) of the laws and other legal acts passed by the Verkhovna Rada, President of Ukraine, Cabinet of Ministers and Parliament of the Crimean Autonomy in response to appeals lodged by defined subjects.

An analysis of laws, regulations and, specifically, of the Code of Administrative Justice shows that it is not only the Constitutional Court of Ukraine but also the general courts of justice that can rule on the constitutional legitimacy of the legal acts passed by ministries, other central executive agencies, the Crimean Council of Ministers, local state administrations, local governments, and other authorities. This should be regulated when amending the Constitution of Ukraine.

This and other problems of the judiciary can be resolved by implementation of the following principles:

1. The judicial reform must improve law administration to align its main parameters with the criteria of the European Union. The political basis for such perception of the reform is the coordinated position of the President of Ukraine and the political subjects that have formed the coalition of parliamentary factions.

2. The principal task of the judicial reform, as proved by the general court transformation in the countries of Central Europe prior to their accession to the EU, lies in raising the efficiency of justice, separation of the judiciary from the executive branch, and establishment of the independence of judges as the carriers of judicial authority. Independence of judges is ensured by the traditional set of means, including a) immunity of judges from criminal proceedings, b) selection procedures that excludes any repeated involvement of the political authorities, c) proper remuneration specified by the law and not by executive decisions, and d) sufficient number of judges.

3. An important element of the judicial reform is to enable the Constitutional Court of Ukraine to work efficiently. This requires a) inclusion of natural persons and legal entities onto the list of those entitled to lodge actions on constitutionality of laws and other regulations (Article 150 of the Constitution); the conduct of hearings by chambers will prevent an overloading of the Court; b) establishment, in a separate law, of the procedures for enforcement of the CCU judgments and of greater liability for failure to enforce them; c) complementation of Article 382 of the Constitution with a new part stipulating liability of officials for failure to enforce a judgment of the CCU, envisaging deprivation of the right to maintain relevant positions in the public administration or local governments for a specific period of time.

4. The judicial reform is to be coordinated with the reform of the agencies that support and enable administration of justice, recognizing the need to have a unique system of law enforcement.

The judicial and law enforcement reforms should focus primarily on the amendments and supplements to the Constitution and the laws that enhance independence of judges and prosecutors and minimize political influences on the police.

A speedy development and adoption of comprehensive Concepts for reform of law enforcement system will unquestionably increase the efficiency of operation of the law enforcement system. The Concepts should identify the number of law enforcement agencies that the country needs, the principles of their functioning within the national law enforcement system, separation of their authorities, and the stages of restructuring of the law enforcement agencies, with mechanisms of implementation of such changes.

Humanization of criminal laws and fair criminal justice should become distinct directions of the future reforms that should also include institutional development of probation, and broader application of settlement and reconciliation procedures.

The reform is to focus on the people and their right to fair trial and not on the interests and wishes of representatives of different administrations, including judicial. The reform is to benefit the people, and not the court presidents.

The judicial reform in Ukraine is expected to give the following results:

- Uniform application of the legislation on the basis of the rule of law;
- Elimination of corruption in the judiciary corps;
- Efficient enforcement of court rulings;
- Creation of proper conditions for adequate budget funding of the judiciary;
- Implementation of a new system of selection and advanced training of judges and an efficient system of disciplinary proceedings against judges;
- Completion of the system of administrative courts; and
- High credibility of the judiciary with the population of Ukraine.

## **1.2. THE ADMINISTRATIVE SYSTEM: ITS CONDITION AND THE AVENUES OF REFORM**

### **1.2.1. The Present Status of the Public Administration System**

The existing Ukrainian system of public administration demonstrates its inefficiency, internal controversies, remoteness from individual citizens and, consequently, it acts as another hurdle for the modernization process and systemic changes in all walks of development of the society.

Excessive concentration of authority in the central executive agencies, primarily in the Government, results in their failure to develop strategies of national development or sectoral policies as most of their time and effort is taken by current problems.

The administrative reform in Ukraine began formally in 1998, but it has never been implemented. The legislation that had to be adopted according to the Concepts of Administrative Reform was never passed.

In this context a special emphasis should be made on the inefficiency of public service that has not yet turned into an institution granting effective and democratic public administration in practice.

The main reasons of insufficient public administration include:

- Lack of updated regulatory frameworks for the operation of public authorities and most inefficient use of the existing regulations;
- Incomplete transformation of the Cabinet of Ministers into an agency that provides political guidance;
- Inefficient system of interaction between government agencies at the central, regional, and local levels;
- Insufficient analysis and predictability of the government's administrative effect on the society;
- Imperfect system of public and municipal service;
- Lack of parity in relations between individuals and the government;
- Low efficiency of social reforms, particularly in terms of formation of market mechanisms, finance, loans and tax systems, and with regard to social protections, which has led to mergers between public authorities and businesses and a growth of shadow economy and corruption;
- Insufficient use by executive agencies and local governments of the principles of openness and transparency or e-governance techniques.

Moreover, there are no real mechanisms for the government's accountability to the people, which is a necessary pre-requisite for democratic governance. Specifically,

- Democratic or political accountability means that the government should carry the pre-election promises into life, the officials should pursue public policies, and the social benefits and public services should be properly distributed;
- Financial accountability implies monitoring and disclosure of information on the distribution and use of financial resources, and
- Performance accountability suggests presentation of the interim and ultimate results of the government's performance and implementation of public programs.

In the wake of the 2004 constitutional reform and introduction of partisan principles for the formation of local elected councils the Ukrainian system of power has lost its balance, both nationally and locally. Controversies emerged in the President - Verkhovna Rada - Cabinet of Ministers triangle, accompanied by aggravated relations and interactions between the central executive agencies and

local governments, between local administrations of different levels, and between the territorial communities and councils.

The gap became evident between the population's real problems (employment, education, welfare, medical services and so forth) and policies of the local governments. The local governments are losing their natural function, i.e. taking care of the local issues that touch on the life of every citizen. The local councils are now structured upon party principles, so they getting too politicized, their decisions go beyond their competence and have nothing to do with the matters of local development.

### **1.2.2. Areas of Public Administration Reform**

The reform of the system of public administration will be a due response to the society's pronounced need of efficient, responsible and open institutions of state power and local government - and, accordingly, of appropriate democratic governance.

The heart of the administrative reform is a transition from the "administrative-command" model of governance to democratic governance standards. The concept of democratic governance rests upon public participation, transparency, responsibility and accountability of the administration, and assessment of the accomplished results.

Implementation of these principles is to entail a review of the role of the state and of distribution of functions between the state and the civil society, with enlarged participation of the public in the process of guaranteeing real self-government powers to the people. The reform of public administration is to proceed from the principles reflecting the European perception of governance and the true content of the public administration notion that covers the area of operation of the central and local governments.

In this context, the principal tasks of the reform are:

- 1) to shape a stable and efficient structure and operation of the executive arm;
- 2) to organize professional, politically neutral and open public civil service (service in executive agencies and local self-governments);
- 3) to establish a system of economically viable and competent local self-government;
- 4) to foster the status of citizens in their interaction with public administration bodies; and
- 5) to secure accountability of public administrations to the political power and to the society.

These tasks can be fulfilled through the following measures:

- 1) coherent institutional separation of political and administrative functions in the executive system; improvement of operational procedures for public administration entities;
- 2) removal of political positions from public civil service and installation of mechanisms protecting civil servants from unlawful political influences; institutionalization of open competitive selection and career growth of civil servants; improvement of the system of public civil service management;
- 3) de-centralization of public functions and resources; establishment of economically viable entities of local self-government by consolidating territorial communities and initiating effective local taxes (e.g. tax on real estate); implementation of full-fledged local self-government at the district and regional levels as subsidiary levels of local government;
- 4) fair legal regulation of the administrative procedures; direction of public institutions toward rendering public services as a priority; enhancing legal protection for individuals dealing with public administration agencies;
- 5) reinforcement of the oversight function vested with the Parliament and local councils, as well as financial control on the part of the state; development of administrative justice system; engaging citizens into public management and control of the operation of public administrations.

The government's openness, its readiness to conduct an on-going dialog with the citizens, and

involvement of the public in decision-making and enforcement control constitute significant prerequisites for success of the entire reform. Democratic standards of governance stipulate that for efficient control over public authorities the citizens should have continuous real-time access to information on performance of the central and local government administrations.

The relations between the government and the civil society should develop in the following priority areas:

- Establishment of a fruitful dialog between the government, non-government organizations and the people;
- Creation of favorable regulatory frameworks for the development and financial sustainability of the civil society institutions;
- Encouragement of philanthropy and charity, launch of economic (tax) incentives for businesses and individuals prompting them to support institutions of the civil society;
- Development of state (public) orders for social services rendered to the population by civic organizations.

It is fully evident that a system of democratic governance has two distinct and firm features in the area of public administration - firstly, an orientation towards servicing the population by providing public (administrative) services of appropriate quality, and, secondly, a delineation between the government's political and administrative activities.

Therefore, Ukraine needs a set of rules and standards on provision of governance and administrative services to the public by civil servants. To be more exact, a future Law of Ukraine with a tentative title "On Public Services" and a Register (list) of public services with all the relevant standards and regulations should make up the legal basis for introduction of an efficient system of public (administrative) services in the nation.

### **1.2.3. Areas of Reforms in the Territorial Structure of Power**

Transformation of the territorial division of power should proceed within the context of reform of the entire system of public administration.

Local institutions of public authority (local executive agencies and local self-governments) fail to function efficiently for the following main reasons:

- 1) institutional conflict exists between local self-government institutions and local state administrations stemming from the stipulations of the Constitution and laws of Ukraine, manifest both in their inter-relations and in the irrational and unclear division of authorities between local government agencies and the executive (as well as between the levels of local self-government);
- 2) local and regional councils do not have a possibility to implement independent policies via subordinate executive authorities;
- 3) politization of local councils and violation of the principle of representation of common interests of the territorial communities in the course of formation of regional and district councils;
- 4) insufficient mechanisms of public participation in local governance and no efficient provisions for accountability of local government agencies to the citizens;
- 5) negative effect of the imperfect administrative-territorial structure upon the system of local self-government and on provision of public and social services;
- 6) unrefined inter-budgetary relations and lack of stable sources of local budget revenues the growth of which could be primarily controlled by the local self-government institutions;
- 7) insufficient personnel and organizational capacity of self-government agencies with regard to local problem-solving;
- 8) the Ukrainian Constitution and local governance laws fail to incorporate the key principles of the

European Charter of Local Government, namely: legal, financial and organizational autonomy of local government elements; extension of local self-government's basic level jurisdiction onto the whole territory of the administrative-territorial unit; full and exclusive authority of self-government institutions with regard to matters of public administration; conformity of financial resources with the functions delegated to the local self-government agencies.

The concept foundations of the local and regional governance reform should promote decentralization of power in general and decentralization of public administration and public funding in particular.

The present stage of power decentralization in Ukraine is marked by two priorities:

- Separation of authority between basic local and sub-regional/ regional self-government, and
- Separation of authority between local self-government and local executive agencies.

In view of the key tasks of decentralization, an apparent prerequisite is to ensure the legal, political, financial and economic abilities of self-government for the exercise of a broader range of authority.

An attentive examination of the vital issues that the citizens face in their daily lives and needs - health care, education, public order, environmental protection, housing and utility services, pensions, taxes, public budgeting - also shows that it would be impossible to resolve such issues without a comprehensive reform of local self-government.

The process of transformation and modification of the territorial power arrangement requires a comprehensive approach that takes into account the need for, firstly, constitutional consolidation of local self-government at the primary level and, secondly, clear definition of the status of district and regional councils and of the fundamentals of their establishment, structure, and operation. At present, the only opportunity to build up the capacity of territorial communities as the basic tier of local self-government is seen in improvement of the administrative-territorial division and reform of local self-government as a system.

Excessive politization of the councils as a result of party-based local council elections has not only led to their structuring in accordance with partisan and business interests and alienation from the interests of individual citizens but also gave an impetus to conflicts with city mayors who are elected by general vote and are accountable to the community and the voters.

This is the reason why the system of local elections undoubtedly needs a review. Village, township and city mayors (or heads of communities, if the administrative-territorial division reform takes place) should be elected by absolute majority of vote, and members of local councils - depending on the size of the community and its administrative-territorial level.

The concept of transformation of the territorial organization of power and of local self-government should envisage a step by step progress. This refers both to the reform process per se and to the changes in the system of power institutions - local executive agencies and local self-government. Finding a balance between the authority and responsibility of local governments will pillar successful construction of an efficient local governance system and of all modifications in the system of public administration and local self-government.

A new format of relations between the local self-government and local state administrations will be the cornerstone of the institutional and legal supports for the reform. Specifically, the modified local executive agencies (local state administrations) should perform the following functions:

- 1) coordinate operation of the territorial branches of ministries and other central executive agencies and government agencies conducting their activities at the levels of region, district, and the Cities of Kyiv and Sevastopol;
- 2) exercise control over enforcement of the Constitution and laws of Ukraine, acts of the President of Ukraine, Cabinet of Ministers of Ukraine, ministries and other central executive agencies by the territorial branches of ministries and other central executive agencies and by government agencies conducting their activities at the levels of region, district, and the Cities of Kyiv and Sevastopol;
- 3) exercise state control of the compliance of decisions and actions of local self-government insti-

tutions and officials with the Constitution and laws of Ukraine, and

4) implement the national policy in the areas of defense, national security, public order and mitigation of emergencies, ensuring relevant interaction between territorial branches of ministries and of other central executive agencies and government agencies with the local-self-government.

In conducting the administrative and administrative-territorial reforms, it should be borne in mind that decentralization of power brings positive effects and is safe to the stability of the nation only when the state retains precise and well-set instruments of control over the performance of local self-government institutions with regard to their law-abidance and to protection of communities from bankruptcy in those instances when the elected local authorities prove incapable of operation or if their actions seem obviously dangerous for sustainable life of the community.

#### **1.2.4. Public Service Reform**

In the context of reform of the entire system of public administration it is a topmost priority to fulfill the task of fostering professional and efficient public and local government service whose objective would be to introduce real democratic standards, safeguard human rights and freedoms, and provide public services of proper quality. Ukraine's democratic development largely depends on an efficient structure of public service, its attractiveness to highly qualified professionals, conformity with the European standards and reliable safeguards for the rights of public servants. The President of Ukraine issued the Decree on September 20, 2007, "On measures to reform the public service in Ukraine and to safeguard the constitutional rights of public servants" whereby he assigned the Cabinet of Ministers of Ukraine the task of finalizing the draft Law of Ukraine "On Public Service", particularly in the area of social protection for public officials.

The initial steps to engage public servants into political decision-making and development of mechanisms for enforcement of such decisions are being made in accordance with the program of public service development for 2005-2010. A number of pilot projects are under way to create policy analysis and strategic planning groups within public administrations, introduce public policy mechanisms such as public hearings, and draft public policy documents and the so called "green" and "white" papers.

At the same time the social and legal status of public servants requires greater responsibility and performance efficiency as well as continuous upgrading of their professional qualifications.

Inadequate system of professional training for public servants does not reflect the present needs of the society and the state, calling for a complete renovation of the system of training, re-training and advanced training for public servants and officials of local government agencies, with an emphasis on offering public service professionals sufficient knowledge of theory and relevant practical skills to work within the new political realities of Ukraine enjoying freedom of expression, open political competition and multi-partisan governmental institutions.

#### **1.2.5. Anti-Corruption Efforts**

Overcoming corruption within the system of public administration is a key requirement and the principal precondition for reinstating the government's credibility in the society. Counter-corruption policies are a top priority social and public goal that call for a comprehensive system of prevention and resistance measures on the part of the state and the people.

The spread of corruption in Ukraine breeds distrust and social apathy, projects a negative image of the nation in the international arena, obstructs implementation of social and economic programs, decelerates development of the nation and the society and, ultimately, constitutes a real threat to the national security of Ukraine.

The main consequences of corrupt state power are:

- Inefficient distribution of public funds;
- Loss of budget returns because of the shadow economy and failure to pay taxes;
- Lower efficiency of the government performance in general;

- Constraints for the development of small and medium-size business;
- Substantial slowdown of investment activity;
- Strengthening of organized crime,
- Growing social disproportions, and
- Undermining of popular trust to the state structures and general depreciation of morale in the society.

Corruption of public officials has reasons of social, economic, political, legal, socio-psychological and organization-administrational nature. Corruption spreads in the environment where there is no systemic and comprehensive anti-corruption effort and inability, or unwillingness of the government institutions to develop efficient instruments to counter corruption.

Other reasons of corruption proliferation include the absence of clear and open procedures for regulation and standardization of public officials' performance in the line of duty, and the absence of inescapable liability for acts of corruption. The executive agencies are overloaded with controlling, regulating, permitting and distributive functions in multiple areas, which creates room for abuse. This is proved by the application of anti-corruption laws by the courts: a vast majority of individuals held liable for bribery, abuse of official authority or direct violations of the Law of Ukraine "On Combating Corruption" represented the executive power. According to law enforcement data, the Ukrainian courts held liable 2,721 public officials in the first half of 2007, or 14.6 % more than in 2006. Corruption offenses entailed criminal or administrative punishments for over 300 customs and tax administration officials and nearly 400 employees of the Ministry of Internal Affairs.

The total of administrative protocols on corrupted actions communicated by the law enforcement authorities to the courts of justice totaled 4,807 by September 2007. Relevant hearings gave rise to administrative liability of more than 3 thousand officials, of whom every fifth person was a public servant of the 1st to 4th grades.

Countering corruption within public administration must be supported by appropriate legal provisions and their effective enforcement. Ukraine has over 70 acts to that effect, including 12 laws and a number of by-laws. They were adopted in different times at different levels, without adequate academic support; no wonder that their enforcement remains extremely inefficient. The Anti-Corruption Concept "On the Way to Integrity" approved with a Presidential Decree in 2006 was never put into life; it took the government a whole year to approve the rules of its implementation.

Development of a system of public control and a climate of intolerance toward corruption are important components of the effort to fight corruption.

To adapt the national anti-corruption legislation to the present realities, the President of Ukraine submitted to the Parliament three draft laws in 2006 - "On Measures To Prevent and Counteract Corruption", "On Liability of Legal Entities for Corruption Offenses" and "On Amendments to Certain Legislative Acts Regarding Liability for Corruption Offenses". All the three had been developed with regard to the international legal requirements and recommendations, and they should be discussed by the Rada as a matter of priority.

Presidential initiatives on combating corruption in the government seek to:

- Cancel immunity of the elected representatives;
- Introduce procedures for mandatory annual disclosure of incomes and expenses by public officials and civil servants, law enforcement, tax and customs officers, judges, and members of their families;
- Separate business and state power;
- Establish a single counter-corruption public agency with relevant powers;
- Improve the institution of public service and administrative procedures for government agen-

cies to attain integrity within government personnel;

- Introduce legislative regulation of procedures for media disclosure of corruption among public officials;
- Bring the current anti-corruption legislation into conformity with the international standards of prevention and elimination of corruption;
- Allot ample anti-corruption rights to the public;
- Form a negative popular perception of corruption and support non-government organizations involved in anti-corruption monitoring, and
- Develop a broad anti-corruption public information campaign.

The new Law of Ukraine "On Public Service" and "Code of Behavior in Public Service" are to implement the effort against corruption. The two acts have to organically fit in with the system of anti-corruption regulation and lay the basis for legal assessment of public officials' performance.

Anti-corruption initiatives that came from the President of Ukraine in 2005-2007 imply the following major actions to counter corruption in the year of 2008:

1. Adoption by the Verkhovna Rada of a package of anti-corruption laws that went through the first reading in the 5th Parliament of Ukraine in December 2006;
2. Finalization of draft Laws of Ukraine "On Public Service", "On Financial Control by the State of Incomes and Expenses Disclosure by Persons Entitled to Perform Public Functions, Their Family Members and Close Relatives", and the Code of Integrity for persons entitled to perform public functions;
3. Establishment of a special anti-corruption authority with clearly defined responsibilities to develop a single public policy and implement counter-corruption measures.

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It is evident that the state administration cannot enjoy confidence, support and partnership of the citizens in its pursuit of vital political, economic, and social reforms for modernization of the country unless it implements democratic governance, high ethical standards, respect for human rights and social expectations, and public officials can make decisions and bear responsibility under continuous public control.



Ukraine:  
**processes, results,**  
prospects.

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Ukraine: processes, results,

**Prospects.**

Ukraine's competitiveness and its worthy place in the modern world are inseparably linked to modernization of its economy. In its present-day form Ukraine's economy is extremely energy and resource-consuming. The structure of its national product is determined by the production with a low level of added value and its innovative potential remains low.

Such a state of economy has a significant impact on all spheres of the state's life and the society. It is obvious that in its present non-reformed status Ukraine's economy cannot provide the indispensable resources which are badly needed to boost modernization process and to align with European economic, social, and humanitarian standards.

High rates of economic growth and some improvements in social development indicators point to a sufficient level of market-economy relationships, which makes it possible for economic entities to operate on a day-to-day basis without interference of the state.

However, strategic issues of economic development remain unresolved. In 2007, the economic policy was pursued without any government program of action while the Verkhovna Rada was actually incapacitated. As a result, no real support was given to the Presidential initiatives aimed at the attainment of a new quality of economic growth and improvement of economic management as well as reform of social security system. For the most part, actions of the executive and legislative institutions in the short-term perspective were impacted by the election campaign and attempted to address some haphazard issues in the social sector. Strategic goals of economic development were mostly mentioned in the election programs that often raised doubts in terms of prospects for their implementation.

Due to such approach of the Ukrainian policy-makers to the economy the results of Ukraine's social and economic development in 2007 turned out to be rather ambivalent. Against the background of high indicators of economic growth, the alarming symptoms of macroeconomic instability kept piling up. Positive trends in the social sphere were largely cancelled out by the growing inflationary spiral.

Therefore, it becomes evident that eliminating inherent contradictions of Ukraine's economy in strategic terms requires an active and persistent state policy, but regrettably, such policy was lacking in recent years that were marked by a high level of political stand-off.

Given that the pre-election period was characterized by high expectations in the society in terms of the would-be social policy, the Verkhovna Rada and the government are now confronted with the challenging task of finding, in 2008, a golden balance between the goals of economic and social development and laying down the foundation for a new economic model. The social priorities of the country's development based on the model would create a strong foundation for competitiveness of the national economy and secure a dynamic economic growth at the rates not lower than those achieved over the period of 2000 - 2007, while improving foreign trade balance and maintaining macroeconomic stability as well as predictability of inflationary and exchange rate dynamics.

## **2.1. SOCIAL AND ECONOMIC DEVELOPMENT OF UKRAINE IN 2007: OUTCOME, LESSONS AND CHALLENGES**

### **2.1.1. Factors of economic dynamics**

In 2007 Ukraine's economy continued to grow at a fast rate. GDP grew by 7.3%, which was not different from the previous year's indicator. In spite of the monthly decrease of the GDP's rates of growth, they remained higher than the indicators for similar periods of the previous year (see fig. 2.1).

Structurally, the major factors for a dynamic GDP growth were acceleration of the growth rates in the processing industry, where the added value increased by 12.9% over eleven months of the year, construction industry (by 11.3%) as well as in wholesale and retail trade (by 17.4%). Conversely, as compared with the previous year, the situation in agriculture significantly deteriorated, with the decline of 5.2%, and growth in the mining and extraction industry, generation and distribution of electricity, natural gas and water, and transport industry slowed down, too. (see fig.2.2)

While the previous year was characterized by the faster rates of growth in the mining and extraction industries, the year of 2007 saw the processing industry accounting for the bulk of the econom-

ic growth. The engines of growth were the food industry and machine-building, which jointly accounted for 46.2% of the gain in industrial production (in commensurate prices). The share of metallurgy in the industrial growth somewhat declined as compared with the previous year and made up 21.7% only.

The quoted breakdown of economic growth by industries pointed to the combination of domestic consumption, investment demand, and exports being the factors for economic growth in 2007.

Domestic consumption demand in 2007 was one of the leading factors of economic growth. According to statistics the rates of growth in final consumption over the period of January-October made up 12.4% and household consumer spending made up 15.2%. Overall, the share of consumer spending in GDP made up 78.3%, which was by 0.1 percentage point more than a year before. The rate of growth of end consumer spending in January-October 2007 exceeded 1.7 times the overall rate of GDP growth (in commensurate prices). Buoyancy of consumer demand was reflected in the structural dynamics of industrial production. There was a marked acceleration in production growth of the food industry, and the light industry ceased to decline. In the machine-building sector transport vehicles manufacturing grew faster than any other sub-sector: the automobile output, in particular, grew by 42.5% (in real terms) over 10 months of the year. The important role of consumer demand can also be proven by the boost of retail turnover, which increased by 28.8% within the year, which was 2.3 percentage points more than in the previous year.

The basis for the increase in consumer demand was the continued trend that had become traditional over the past few years, i.e. a faster growth of the household income as compared to the underlying macroeconomic indicators. It was facilitated by the general buoyancy of economic dynamics and by the state policy measures, such as March 2007 amendments of the Law of Ukraine "On State Budget of Ukraine for the Year 2007" which suggested a more dynamic growth of social standards. Nominal income gained by the households over eleven months of 2007 grew by 29.9% as compared with the relevant period of 2006. In September, 2007 the average wages grew by 29.6% and made up UAH 1,485. Social benefits and transfers grew by 27.5% in nominal terms.

The funds reaching the most underprivileged groups of the population led to an increase of solvent demand in consumer goods, primarily foods. A fresh impetus to the increase of consumer demand for such products was given by the raise of social benefits during the summer and autumn seasons as well as by all sort of payments, largely informal, linked to the election campaign.

Financial strengthening of households and dynamic growth of household deposits in commercial banks (by 53.9% within 2007) contributed to a further boost of banks' lending activity on the consumer market. While the volume of bank loans extended to the economy increased by 74.1%, loans to natural persons increased by 97.8%. This contributed to the increased demand, primarily, in durable goods. Concurrently, the released households' funds were additionally directed toward meeting current consumption needs.

A dramatic contribution to the formation of increased consumer demand was made through the State budget expenses. Based on the outcome of eleven months of 2007, the overall level of disbursed expenses made up 99.85% of those planned for January-November from the general fund. The state budget expenses over the period exceeded the level of the same period of 2006 by 27.6%.

As a result of the above-described processes, the rate of growth of household spending over eleven months of 2007, made up 31.3% and for the first time over the past five years it exceeded the rise in income. At the same time, it should be taken into account that the rise was absorbed by the increased spending of households on footing the housing and utilities bills. The housing and utility charges per one personal account for such services had increased, on the average, by 89% at the start of the year.

A significant enhancement of the investment component of economic growth in 2007 can be illustrated by the faster growth of accumulation of capital assets. Based on the outcome of the first three quarters of the year, gross accumulation of capital assets made up 25.6% of GDP, which was by 2.5 percentage points more than in the previous year. The growth of this indicator made up 22.3% and exceeded the rate of end consumption growth one and a half times. It accounted for 67.0% of the GDP growth in January-September 2007 (in commensurate prices). In real terms the increase of investments into cap-

ital assets made up 28.5% over the three quarters of the year (against 16.1% over the same period of the previous year), which had a marked impact on the dynamics of industrial production.

The buoyancy of investment activity was considerably facilitated by the dynamic growth of financial performance of the profit-making companies. This performance constituted 64.5% over eleven months of the year, which was 3.2 times more than the wholesale price index in the industrial sector overall (20.0% more in November 2007 against November 2006). Funding of investments into capital assets from central and local budgets increased by 28.1% over nine months of 2007, although their share in the overall capital investments went down to 7.7% against 8.9 % over the similar period of the previous year. While the funding of expenditures from the general fund of the state budget over nine months of the year made up 66.1% of annual appropriations and 76.0 % of current transfers to households, capital expenditures made up less than 40 %.

Another strong factor for economic growth in 2007 was the dramatic increase of export activity. While over eleven months of 2006 the gain in exports had made up 11.6 percent, the indicator reached 27.9% over the same period of 2007. And while in 2006 the gain in exports had occurred at the expense of price factor (according to the State Statistics, export of goods and services was by 4.9% lower in physical terms than the year before), in the first half of 2007 the situation dramatically improved and the volume of exported goods and services increased by 5.1% in physical terms. In the third quarter the indicator went down by 0.5%. Exports of industrial product made up 39.3% of the overall volume of sales in the industrial sector over eleven months of 2007, which points to its significant role as a factor of economic dynamics. This can be clearly traced through the growth of the sector's leading branches: more than 70% of metallurgical products, 50% of machine-building output and over 20% of food industry products were sold on external markets within eleven months of the year.

The increased share of products with a bigger added value in exports (the share of machine-building products went from 13.6% up to 16.9%) allows to draw a conclusion about the enhanced systemic impact of external trade on the internal economic component. The gain in exports of machine-building products in value terms made up over 80% of production gain in the industry and, thus, with the exception of domestic market-oriented automobile industry, one could speak of primarily export-oriented production growth in the sector. Export factor of economic growth was also quite considerable in the food industry. The increase in the volume of exports of relevant products made up over three quarters of gain in the sales of food industry products over eleven months of 2007.

On the other hand, due to export specialization, the disproportionate nature of Ukrainian industrial production led to a high rate of growth of imports against the background of dynamic increase in internal demand and concurrently with economic growth. Imports grew by 34.2% within eleven months of 2007 which contributed to the trend of growing negative trade balance observed in 2005-2006.

There are also inequalities in the distribution of markets between imported and domestic products in different sectors. Thus, while imports of food products only made up 14.4% of the volume of domestic producers in this sector, which points to competitiveness of Ukrainian food producing companies, the imports of machine-building products exceeded the production of similar products within Ukraine by 16%, textiles and clothing articles - 1.9 times. This testifies to the fact that positive impetus from dynamic growth of domestic demand for a number of Ukrainian industries is quite limited.

It was the faster growth of imports that made possible the simultaneous increase of the shares of consumption and accumulation in the cumulative GDP of Ukraine. The changed structure of imports in 2007 points to a stronger impact of both consumer and investment demand growth. The role of domestic demand as a factor for economic growth also became stronger. The cumulative increase of imports over eleven months of 2007 was equal to the overall growth of GDP (in commensurate prices).

### **2.1.2. Growing imbalances in the monetary and foreign exchange areas**

Dynamic economic growth in Ukraine against the background of increased domestic demand led to a dramatic growth of sound demand in loans. Lending into Ukraine's economy increased by 74.1% in 2007 and the cumulative rate of loan growth was at its highest for the period beginning 2001 (1.7 times). This added significantly to the investment activity as well as promotion of domestic consumer demand and stimulated activity of domestic market-oriented industries.

However, capitalization of Ukraine's banks was delayed and financial markets were underdeveloped, too much money was released for consumption needs and there were no adequate tools for channeling household savings toward investment needs. All this led to the situation when Ukraine's banking system became much too dependent on external sources of financing (fig. 2.3).

Growing demand in financial resources was met through inflows of foreign capital. Over nine months net borrowings through medium- and short-term loans amounted to 11.3 billion US dollars, which was 2.6 times more than during the same period of the previous year (fig. 2.3) and the surplus of consolidated balance of payments in early September reached 9.6 billion US dollars. The key borrowers were the banks whose indebtedness increased by 9.6 billion US dollars. Within nine months of the year the supply of foreign exchange grew by 55% while the demand grew by 29%. The purchase of big volumes of foreign exchange with a view to maintain the official UAH-USD exchange rate became the main vehicle for increasing money supply. The balance of the National Bank interventions on foreign exchange market made up 38.4 billion UAH, which was equivalent to 28.2% of the money supply growth over this period, while the total amount of money spent on refinancing commercial banks only made up 2.5 billion UAH (in fact, 2.1 billion UAH if overnight loans were not taken into account). While the growth of monetary aggregates was to a certain extent held down through the increase of government funds on the Treasury account in the National Bank of Ukraine by 67.4% over eleven months of 2007, in December the balance on that account suddenly declined by 71.1% down to 4.4 billion UAH. This became a strong factor of accelerated growth of monetary aggregates during the last month of the year. The monetary base increased by 46.0% over the year, the money supply grew by 52.2%, which was 2.6 and 1.5 times higher than the similar parameters of the previous year. International reserves reached their all-time high of 32.5 billion USD. From the start of the year, the monetization level increased from 42.3% up to 46.55%.

Combination of a soft monetary policy with a negative trade balance, stepping up of foreign financing through the channels of both direct investments and private sector borrowings, a dramatic increase of social expenditures and the household income became a factor for increasing threats to macroeconomic stability. In 2007 intensification of inflationary processes unraveled against the background of macroeconomic imbalances piled up in the previous years (primarily due to price and structural disparities), political instability and external destabilizing impacts. For a fourth year in a row, the inflation rate was above 10%. By the end of 2007, consumer prices grew by 16.6%. A faster growth of food prices (27.3% increase in food prices accounted for 80% of the overall inflation rate) made a big negative impact of inflation in social terms since it had dealt a crushing blow to those households which had a low income level and had to spend a large share of their income on food.

The fundamental reasons for spiraling inflation in Ukraine were in-depth macroeconomic imbalances and systemic factors, namely:

Irrational use of resources allocated for social needs, within the context of the prolonged election campaign and political instability which was exacerbated by considerable injections of money through informal channels;

Weakening of the economy's capacity to meet domestic demand due to unsatisfactory structure of economic growth when a large part of GDP growth came at the expense of the components that did not increase domestic supply (trade, financial sector, export manufacturing of products for intermediary use), and a sizable part of industrial products was intended for exports;

A steady growth of production expenditures, including the increased share of wages, led to a faster growth of production prices and added to the inflation of expenses (the wholesale prices in the food industry grew by 24.8% over a year, namely by 19.0% for meat products and by 46.7% for dairy products);

Incompleteness of market-economy reforms and imperfections of market-economy instruments in a number of economic segments (in particular, agro-industrial complex, housing and utilities sector, energy sector) provoked the emergence of regular imbalances in some segments of commodities market and constrained the NBU capacity to impact the money supply through its operations in the open market;

Decline in the volume of agricultural production led to a price hike for the main kinds of crop prod-

ucts (including cereals, sunflower, sugar beets, etc);

A fairly large openness and import dependency of Ukrainian economy exacerbated the sensitivity to ascending price trends in the world markets, particularly the rise of food prices in the autumn of 2007<sup>5</sup>;

A high level of economic and political risks in the expectations of economic agents was incorporated into a higher profitability rate;

Lower capacity of the executive power during the political crisis weakened the effect of non-economic tools for price constraints which had previously countervailed the effect of objective factors behind a price rise for socially vital goods;

The implementation of measures aimed at lowering the inflation rate will make it possible to reduce macroeconomic risks that come about as a result of a faster rate of growth of household income as compared with the rate of GDP growth (over the period of 2004-2007 the nominal income of households grew 2.9 times, real income - 1.9 times and real GDP - only 1.3 times). However, one of the chief aims of the Ukrainian economic strategy must be the growth of labor productivity, enabling it to eliminate the mentioned imbalance.

A considerable negative implication of higher inflation was the continued trend of previous years whereby the nominal growth of household income was gradually losing its social effect. The population is well aware of this contradiction. Thus, in real terms the income growth only made up 12.5% over the period of January-November 2007, which is the lowest indicator since 2003 (over the same period of 2006 the growth of household income in real terms had made up 13.8%). Alongside with the overall growth of real income, the rate of growth of real wages also slowed down. Over eleven months of 2007, it grew by 12.7% as compared with the same period of the previous year. The steady trend toward slowing down of that indicator continued: in 2004 real wages grew by 23.8%, in 2005 - by 20.3% and in 2006 - only by 18.3%.

The policy of supporting a stable exchange rate of Ukrainian hryvnia to the US dollar continued in spite of the dollar's considerable depreciation with respect to euro and other leading currencies (including the currencies of Ukraine's major trading partners). The measure made it possible to maintain price competitiveness of Ukrainian producers and thus it leveled out the inflationary pressure. From the start of the year the hryvnia depreciated by 9.4% with respect to euro and by 6.5% with respect to the Russian ruble. The real effective exchange rate of hryvnia over 10 months of 2007 went down by 5.5%.

At the same time, in the light of the indicated negative trends in the monetary field a stable exchange rate, as the main instrument for maintaining macroeconomic stability traditionally applied in Ukraine, lost its effective function as a nominal anchor. The monetary and exchange rate policy acquired a paradoxical quality when the hryvnia exchange rate remains unchanged, the domestic purchasing power of the Ukrainian currency is declining, and the process of pushing it out from the internal cash circulation is gaining momentum. The NBU attempts to make an adjustment of the exchange rate policy and hryvnia appreciation in the context of considerable political and economic uncertainty, growing trade balance deficit, and the debt nature of the main sources for replenishing international reserves might trigger unpredictable and extremely negative processes in Ukraine's economy. Such attempts may raise foreign investors' demand for Ukrainian securities followed by an effort to lock in the exchange rate profits and then repatriate capital out of Ukraine, provoke a further increase of negative trade balance, depreciate hard currency savings of the population, cause deterioration of the position of the banks with prevailing USD loans in their loan portfolio, etc.

Therefore, the results of Ukrainian economic development in 2007 have revealed the signs of the fact that Ukraine is gradually embracing a model of economic growth on the basis of consumer and investment demand. In the context of political uncertainty, the coupling of soft monetary policy with a sweeping growth of social expenditures and household income leads to the change in consumers' behavior and higher consumption rates. A considerable increase of flows of capital resources into the real sector of economy points to the fact that both the growing consumer demand and buoyant

<sup>5</sup> According to the UN data, as a result of sweeping use of agricultural produce for industrial purposes, the prices for corn, sunflower and rapeseed saw a twofold increase over the year of 2007 and, according to some forecasts, they may rise by another 20 - 50% by 2016. Fast growth of prices for foodstuffs leads to a tougher competition for land and other natural resources.

export dynamics engage the sectors which are involved in the formation of national capital, but, on the other hand, it also triggers the influx of imports into Ukraine. Accordingly, this changes the direction of money flows and impacts the structure of money supply. It also enhances the impact of inflation structural components and aggravates the problem of disparity between the dynamics of income of the economic agents, on the one hand, and the dynamics of consumption and investments, on the other hand.

Thus, notwithstanding the generally positive growth that the real sector of economy continues to demonstrate, numerous essential controversies and threats to further destabilization of the situation have already piled up and surfaced in the monetary and exchange rate field. All this points to the need of changing the model of social and economic development of the country as well as updating the national social and economic policy.

### **2.1.3. Controversial social implications of economic growth**

The period of continued economic growth had a general positive impact on the level of utilizing Ukraine's labor potential. Throughout 2000-2007 the number of employed population grew by 897,700 persons (4.5%) notwithstanding the negative demographic trends. By the end of 2007, the rate of employment grew up to 59.1% and reached its peak since 1999. Accordingly, the economic growth was followed by a gradual reduction of the unemployment rate. In January-October 2007 the number of people with an unemployment status went down by 27.1% and made up 553,700 persons as of November 1, 2007. The unemployment rate, calculated according to the ILO methodology, went down to 6.2%, an all-time low since 1996. But unemployment assumes an ever more expressed structural character which reflects the unreformed and disproportionate labor market. The latter is determined by unbalanced economic situation which combines two opposite trends: the shortage and surplus of labor.

The trend toward increasing the share of wages in the structure of household income was retained and grew to 42.6% over eleven months of 2007 (in 2005 and 2006 it had made up 40.5% and 43.2% respectively), which points to a stronger incentive function of wages. The average wages of staff employees in 2007 exceeded the subsistence level (561 hryvnia) 2.6 times while in 2006 this ratio was only 2.2 times.

However, the wages being the basis of the household income, they remain much too low to perform their main functions. According to the European social charter, minimum wages must be at least 2.5 times higher than the subsistence level, but in Ukraine the minimum wages constitute only 81% of subsistence level for able-bodied population. The share of employees who were paid wages below the subsistence level in the first half of 2007 was 19.1%. Thus, over 2 million able-bodied people in Ukraine are not in a position to provide for a subsistence level and meet their basic social and cultural needs.

The trend toward a pronounced differentiation of labor remuneration depending on the kinds of economic activity is still there. It shows that wages are formed relative to a specific area of economic activity rather than relative to the amount of labor, its quality and performance. According to national statistics, the biggest winnings from economic growth were gained by 10% of the population with the highest income. On the average, their revenues increased in nominal terms by 24% within the first half of 2007, while the income of the remaining majority grew by 16-17%.

Another positive result of economic growth was the continued trend toward increasing expenditures for the social sector. The consolidated budget expenditures for social and cultural needs grew by 23.2% within January-July 2007 as compared with the same period of the previous year. Over nine months of 2007, investments from all sources into human development grew as follows: education - by 11.9%, culture, sports and recreation - by 47.9%.

However, the social policy in Ukraine has not yet changed in principle notwithstanding multiple declarations and sizable growth of state allocations for social needs. One can see insufficient investments into the formation of indispensable components of human potential and human capital. In the first nine months of 2007, the share of such investments in the overall amount of funds invested into capital assets was as follows: education - 1%, health care - 1.5%, culture, sports and recreation - 1.6%.

There is no systemic approach and no consistent action as regards the social sector reform. Moreover, there is no strategic understanding of the role and function of social policy in the Ukrainian society.

In spite of the efforts to introduce some basics of targeted social assistance, the government failed to go beyond the framework of traditional extensive model based on mechanical increase of social expenditures, and it failed to ensure that the social policy is reformed. Therefore, the efficiency of social expenditures remains low and it downgrades the legitimacy of the state social policy in the perception of major taxpayers. Raising income and social standards through political considerations rather than economic incentives, without a proper analysis of the status and dynamics of economic development, leads to aggravation of macroeconomic imbalances and does not deliver the expected effect to the main recipients of social policy.

As a result, the resources raised by fiscal means are less and less commensurate with the actual outcome of the state social policy. An aggressive withdrawal from the economy of development funds and using them instead for social needs slows down the adjustment of national economy to the growing consumer demand (which leads to the price hike and imbalances in external trade) and hampers labor productivity (which lessens the possibilities of raising wages). Inflationary trends largely reduce the effect of the growing nominal income. At the same time, the more pronounced differentiation of income, regional differences, imbalances in the labor market, systemic crisis of health care and education lead to the build-up of social tension in the society.

A natural result of inefficient social policy is the steady deterioration of the demographic situation in the country. Ukraine lost 297,700 of its population as a result of the depopulation process in 2006 alone, and 210,500 people between January and September 2007 (in spite of increasing birthrate, from 9.7 up to 10.1). In 2007 the average life expectancy in Ukraine was 67.9 years: 62.1 years for men (in 1991 - 64.2 years for men) and 73.5 years for women (in 1991 - 74.2 for women). By this indicator Ukraine is 11 years behind Germany, 12 years behind France and 13 years behind Sweden. It is also behind its nearest neighbors: Hungary and Bulgaria - by 4 years, and Slovakia - by 5 years.

The negative process of population shrinkage is continuing against the background of the overall loss of generational reproduction and deformation of the age structure of the population whose numbers are dwindling in the reproductive age. Over 2003 - 2007, the share of people above 50 years of age grew from 32.8% up to 33.4% in the general population size. Health indicators are deteriorating with people of all age categories. In 2006, 175 diseases were registered on the average per every 100 inhabitants. Labor migration of able-bodied people is gaining scope. According to expert assessment, presently more than 3.5 million citizens of Ukraine are working abroad.

Therefore, the fast rate of economic growth in Ukraine has failed to help raise living standards and improve human capital of the nation. Such state of things slows down further social and economic progress of the country toward European integration, enhancement of its global competitiveness, and it handicaps the development of socially oriented market economy.

#### **2.1.4. Main risks for further development and the benchmarks of social and economic policy**

As was described above, in spite of the continued trend of fast economic growth in Ukraine in 2007, the nature of such growth remained, for most part, purely extensive. It was not coupled with a persistent state policy aimed at rectifying considerable structural disparities that could have a negative bearing on competitiveness of the national economy in the medium- and long-term dimensions. Such disparities have triggered the emergence of considerable risks to macroeconomic stability, which constitute a direct threat to further economic and social development and, therefore, must be accounted for when shaping up the future state policy.

Over the recent few years Ukraine has developed some social criteria for assessing the validity of state policy and economic progress. This is only natural, given that the process of transformations is long overdue, economic reforms have a weak social impact, and political and social tension is running high in the country. Therefore, the new model of social and economic policy must be based primarily on the social components of development.

The ongoing raise of world social standards, which would be a particularly sensitive issue for Ukraine

in the context of its European integration aspirations, will unceasingly continue to increase the social sector's demand for resources. This would require integrating social policy with the goals of diversification of population income sources on the basis of growing GDP, raising labor productivity and production efficiency. Increasing the efficiency of allocations to finance social sector needs would require a structural reform of its management, giving more authority to local communities, strengthening their financial base, diversification of the system of social service providers and their integration into the overall system of the state social policy.

Targeting social assistance and raising its efficiency will make it possible to shift the focus of the state policy toward promoting a dynamic growth of the income level of economically active part of the population. But given the outright growth of cost of underlying resources and largely constrained opportunities for making profits in the context of high pressure from international competitors, the wage growth rate in Ukraine is limited, first and foremost due to low labor productivity. Therefore, the provision of resources to raise productivity of human capital is critical for achieving positive structural changes in the sources of income for Ukrainian citizens.

It should be stressed that maintaining the current rate of economic growth, even in a short-term perspective, would be impossible unless aided by persistent policy measures in this area. This is even more relevant in the light of the following negative trends to be expected in 2008-2009 regarding the main factors of economic growth:

Lower efficiency of impact on economic growth from the consumer demand side due to increased imports share, reduction in real purchasing power of the Ukrainian currency in the high inflation environment, and dragging out of households' funds from commodity markets toward service markets, primarily into housing and utilities;

Lower effect of investment demand due to growth of imports share in capital investments: as Ukrainian manufacturers fall short of technological requirements vis-a-vis investments they would tend to lose the domestic market;

Slowing down of investment dynamics due to a higher cost of external resources (given the general trend on financial markets and due to higher risks borrowers) and continued dragging out of domestic resources for consumption needs, which, for most part, would be used for purchasing imported products;

Weaker effect of export factor for growth due to gradual exclusion of Ukrainian manufacturers from certain markets under the impact of international competition and deterioration of terms of trade, including post-Soviet markets which are also becoming ever more demanding with regard to product technological level.

With a view to step up the process of creation of national resources, the national economic policy should be focused on the gradual decrease of Ukraine's excessive dependence on external trade factors, and on systemic development of domestic demand, which would require concentration of efforts on the following priorities:

Promotion of investment and innovative activities through concentration of investment resources in higher priority areas by developing investment lending schemes and introducing incentives for investment and innovative activities;

Facilitation of development and conduct of entrepreneurial activities through encouragement of small business development and market reforms in agro-industrial complex, expansion of services sector, etc;

Securing support for export activities with a view to promote the improvement of export structure;

Securing gradual weakening of political, institutional, inflationary, exchange rate and market risks to the business environment in Ukraine.

In this context it is extremely important to secure macroeconomic stability. The stability of monetary and exchange rate dynamics must have a positive impact on the perception of socio-economic processes by the wide strata of the population and on the business environment in the country. Therefore, the

means of securing such stability should not hamper the process of resource development.

The systemic nature of inflationary trends has shown a low efficiency of urgent anti-inflationary measures pursued by administrative methods: monitoring and administrative regulation of prices for some kinds of goods, control over the state budget deficit, etc. It requires a new set of tools for exercising control over price trends.

Systemic growth of world food prices requires persistent efforts to eliminate threats to the food safety of the country. The means for diminishing inflationary dynamics should be focused primarily on the reform and implementation of market principles in agriculture, revamping of the state agricultural support system, overhaul of food markets and their logistics, wholesale and retail trade networks, etc.

Substantial anti-inflationary measures of systemic nature should cover the extension of the areas for the use of money by households through the speedy development of stock markets and land markets, decreasing the share of intermediaries in the "producer to consumer" chain, counteraction to monopoly, eliminating regulatory barriers to small and medium business development in the manufacturing of goods and service provision areas.

Coupling of domestic inflationary factors with a persistent inflow of financial resources into the country provokes certain apprehensions toward continued liberalization of foreign exchange market. Given that in the medium- and short-term perspective the liberalization of foreign exchange market will be needed in order to release instruments for money supply regulation by the National Bank, it is of crucial importance to improve a set of tools for regulation of foreign capital inflows during the transition period, to replace debt financing by direct investments, to increase the share of domestic borrowing by banks and companies, etc.

## **2.2. COMPETITIVENESS OF UKRAINEIAN ECONOMY IN 2007: OUTCOME AND CHALLENGES**

The aforementioned results of Ukraine's social and economic development in 2007 confirmed the controversially dynamic nature of the key factors that support competitiveness of the national economy. Therefore, the national economic policy should focus on developing a system of tools that can strengthen and enhance their positive effect.

### **2.2.1. Monetary-financial support for enhancement of competitiveness of Ukraine's economy**

Monetary policy played a positive role in the enhancement of competitiveness of Ukraine's economy in 2007. Of crucial importance for economic growth was the anticipatory acceleration of the "long" money dynamics (the difference between M3 and M1 aggregates grew by 53.5% in 2007) while the "short" money (M1 aggregate) grew by 48.2%. Such improvement of the money supply structure helped strengthen the resource base of the banks and facilitate the economic development with more loans. This substantially enhanced the banking sector's positive role in the formation of competitive national economy, primarily through financing of investment projects undertaken by the economic agents.

The overall volume of loans extended by banks increased within a year by 74.1% against 71.0% in 2006. Though lending to households continued to grow at a faster rate (the volume of loans to natural persons grew by 97.8% in 2007, while the growth of loans to legal entities made up 62.9%), there was a marked trend toward changing the distribution of bank loans in favor of economic agents (in 2006 the gap between the above-mentioned indicators was much bigger - 134.2% against 51.8%).

The growth of scope of bank lending was facilitated by the improvement of the structure of bank deposits. Within 2007 the overall volume of deposits grew by 51.9% or by 95.7 billion UAH (by 38.8% in 2006). At the same time, the volume of long-term deposits increased by 48.8% over eleven months of the year (up to 119.9 billion UAH) and their share in the overall volume of deposits made up 46.2%. The growth of deposits occurred mostly owing to the deposits of natural persons. Their volume increased by 57.6 billion UAH (53.9%) within a year. One of the factors for the growth of household bank deposits was a substantial increase of the amount of maximum reimbursement of deposits by the Deposit Insurance Fund (from UAH 25,000 up to 50,000).

However, like in the previous years, the consumer trend was inherent in a large part of long-term loans the share of which in the overall volume of extended loans grew by 68.6% over eleven months. There is a trend toward an increased use of loans by natural persons for purchases of imported goods (cars, household equipment, etc.). The simplification of mortgage lending conditions by banks had almost no effect on extending access to such loans for wide strata of the population. Instead, it added to deepening of imbalances in the real estate market, in particular with regard to artificial housing price hikes.

Among positive trends of bank development one should also point out further increase of bank capitalization. It was mostly caused by the growth of paid-in registered statutory capital by 15 billion UAH over eleven months of the year, which made up about 58% of the gain in regulatory capital.

However, the mentioned changes for the better failed to secure a noticeable quality improvement of Ukraine's banking system and enhancement of its capacity to provide financial basis for a substantial raise of competitiveness of the national economy. Further stepping up of lending activities of the Ukrainian banks has been followed by a series of dangerous trends, in particular:

Inefficiency of time structure for resource provision to the banking system and continued lack of "long" resources against the background of general liquidity growth which causes the need for external borrowing due to insufficient depth of domestic financial markets;

Further deterioration of ratio between the volume of household deposits and the volume of household loans: 2.19 as of 1.01.2006 (1.35 as of 1.01.2007) down to 1.06 as of 1.01.2008;

A high ratio of loans in USD and imbalances in currency structure of bank assets and liabilities: while deposits in domestic currency grew by 66.5% in 2007, the loans grew by 72.85%, including those to natural persons - by 93.7%; while deposits in foreign exchange grew by 28.1%, loans in foreign exchange grew by 75.4%, including those to natural persons - by 100.1%;

Chronic lag between the rate of gain of banks' own capital and the rate of increase of their assets: over 2007 these indicators increased by 64.2% and 75.9% respectively;

Concentration of loan portfolios in risky and inherently unstable sectors of economy (out of the total number of loans extended by commercial banks, the bulk of them went into construction industry, trade, and mortgage and consumer lending to households);

Exacerbation of vulnerability of Ukraine's money-lending market against external shocks due to vigorous raising of long-term capital abroad by Ukrainian banks in spite of destabilizing trends in the world financial system in the second half of 2007;

Increased number of bad loans;

Transformation of foreign exchange risks into loan risks and liquidity problems.

Accumulation of risks by the commercial banks and the need to enhance the anti-inflationary policy in November 2007 caused the raise of re-financing rate up to 12% (12.5% for unsecured loans) and up to 14.5% and 15% respectively in December. In spite of their significance for macroeconomic stabilization, such measures are fraught with the threat of deterioration of financial support to enhance competitiveness of Ukraine's economy due to the increased cost of loans for borrowers.

In view of those facts, the following actions should promote intensification of monetary tools for stimulating structural changes and for enhancement of the role of banking sector in investment processes:

Support to further growth of monetization of economy provided that surplus money supply is absorbed by the banking system owing to a wider range of means to raise capital and a speedy formation of domestic savings;

Broadening the set of attractive financial instruments for effecting private investments;

Building up institutional support to the banks participating in investment processes, intensification of the role of state banks in extending loans for investment projects, raising their capitalization;

Gradual departure from a fixed exchange rate of UAH to USD and further liberalization of exchange rate policy;

Promotion of depth of financial markets and development of their infrastructure, making it possible to shift the function of control over money supply from foreign exchange interventions toward other monetary instruments for regulation of liquidity in circulation;

Improvement of sterilization policy with account of structural effects and risks caused by sterilization for some groups of banks using the following means:

Active coupling of sterilization with intensive refinancing of banks and other financial institutions (through REPO operations, operations with treasury bills and promissory notes, etc.);

Reasonable interference of NBU into the formation of inter-bank lending market with a view to better redistribute risks from banks with excessive liquidity to banks with the shortage of liquidity;

Enhancement of performance of interest rate policy which requires a more proactive approach to regulation of short-term interest rates in the form of introduction of interest rate bands;

Expansion of the scope of non-cash settlements owing to introduction of modern non-cash payment instruments, further improvement of the clearing system through its vertical and horizontal integration;

Ongoing control of foreign capital in the banking sector.

A better supply of resources to meet the banks' needs in financing long-term projects and stimulating the process of their capitalization will contribute to a long-term resilience of the banking system and its capacity to provide lending for investment and innovative projects. This should be facilitated through:

Building up banking institutions to promote economic development with the granted authority to attract long-term resources on domestic and external financial markets;

Stimulating consortium lending;

Improving arrangements for refinancing commercial banks in the following manner:

A more intensive development of inter-bank market of lending resources, increasing its depth and capacity, strengthening market mechanisms;

Further build-up of electronic inter-bank dealing systems;

Expansion of collateralized security for refinancing of banks, and development of non-collateralized lending by banks;

Securing an effective protection of lender's and investor's rights, raising requirements in respect of transparency of the banks and their clients;

Stimulating demand for bank securities in the domestic stock market;

Tightening requirements with regard to the size of authorized capital for newly-established banks;

Improving the functions of banking supervision on the part of the National Bank with the view of gradual transition to Basel-II standards;

Providing more control and supervision powers to the Deposit Insurance Fund.

The need for enhanced mobilization of household savings and proactive policy to prevent "overheating" of the banking sector and the real estate market require urgent diversification of Ukraine's financial system through creation of more diverse institutions which would be capable of providing financial support to investment activities of economic agents. As the international experience has proven, the development of stock market is one of the determining factors for such diversification.

In the first half of 2007, the overall volume of trading on Ukraine's stock market made up 310.02 billion UAH, which is 1.5 times (by 105.23 billion UAH) more than in the first six months. The stock

issued between January and September was worth 28.74 billion UAH (by 3.6 billion UAH less than over the same period of 2006), while corporate bonds were worth 26.73 billion UAH (by 13.18 billion UAH more than over the same period of 2006). The growth of corporate securities in circulation is an important characteristic of Ukraine's stock market of recent years.

At the same time Ukraine's stock market has substantial inherent imbalances that lower its efficiency and competitiveness, such as:

Spontaneous stock market largely exceeds the volume of stock exchange operations;

The share of foreign investors largely exceeds the share of Ukrainian investors (according to expert assessments, the share of non-residents in Ukraine's secondary stock market and in the corporate bonds market constitutes 80-85%);

Prevailing strategy of corporate control over the market of shares and investment imposes constraints on its secondary segment;

High concentration of the market: a dominant position of a small group of issuers both in terms of trading volume and in terms of capitalization parameters;

A substantial proportion of companies representing the underlying industries, such as fuel and energy complex or telecommunications, in the general capitalization and in the pool of Ukraine's "blue chip" companies;

Underestimation of certain issuing companies due to limited disclosure of information regarding their performance and investment intentions;

A large dependence on external factors, primarily on the terms of trade in the foreign markets of goods and services;

Shortage of liquid and reliable securities and a high rate of development of trading volumes, which causes instability of this development.

Evolution of the stock market of Ukraine must follow the way of accelerated development of its national component, primarily the corporate securities market, and improvement of its qualitative and quantitative characteristics with a view to broaden the range of financial services and secure an adequate level of their competitiveness. In this connection a priority task for 2008 is to adopt the laws of Ukraine "On joint-stock companies" and "On depositary accounting system for securities".

The tools for securing a steady development and formation of competitive stock market in Ukraine should be the following ones:

Encourage higher efficiency of corporate governance, which would contribute to improving performance of joint-stock companies, strengthening trust in corporate securities, and generally improving the investment climate in the country;

Promote investment-oriented contracts and their validity, expand the capacities of stock exchange market and increase its capitalization;

Diversify financial instruments of the market and at the same time strengthen regulatory constraints with regard to movement of speculative capital;

Raise the level of competitiveness among stock market institutions in the internal and external segments;

Bring into conformity the current legislative acts and regulatory by-laws and elaborate new ones, primarily those related to protection of property rights of both majority and minority investors;

Modify means of state regulation of the market through an intensive use of capacities of its professional participants and direct state administrative measures toward protection and support of market mechanisms for self-adjustment;

Develop risk anticipation and prevention methods in the activities of financial institutions, and build up a system of early response indicators and control over the flows of speculative capital;

Bring Ukraine's legislation into conformity with EU directives which regulate financial markets and market infrastructure institutions, such as Directive 2004/39/EC on financial instrument markets;

Improve stock exchange system and stock exchange trading through the establishment of unified requirements to trade organizers with regard to determining stock exchange rates for securities and standards of information disclosure concerning the results of trading that is subject to regular publication;

Establish a central depository and introduce the State Register of the owners of inscribed securities;

Settle the procedure for opening accounts in securities issued by foreign institutions and acquired outside of Ukraine in the depository institutions of the countries where such securities were purchased, in particular by institutional investors whose right to acquire securities of foreign issuers has been established by law;

Improve the content of information and the procedures for its disclosure by issuers of securities with consideration of international practice and experience of running the information disclosure system introduced by the Law of Ukraine "On Securities and Stock Market";

Establish legal principles for issuing and circulation of derivatives and Ukrainian depository notes.

Chronic imbalances of Ukraine's tax system and increased tax pressure on the economy have a negative impact in terms of financial support for raising competitiveness of Ukraine's economy. The proportion of taxes and charges in Ukraine increased from 32.6% of GDP in 2002 up to 39.6% of GDP in 2006. While in 2002 Ukraine, along with Lithuania and Latvia, belonged to the group of post-communist countries of Europe with the lowest level of tax rates and charges, in recent years Ukraine (along with Slovenia) took a leading position by this parameter.

Presently Ukraine has the highest rate of corporate profit tax among Europe's post-communist countries where rates for this kind of tax have been substantially lowered over the recent few years. Thus, Hungary has already lowered the profit tax rate down to 17.5% (it is expected to be lowered further down to 12%), Poland - down to 10%, Romania - down to 16%, Latvia and Lithuania - down to 15%. Better taxation of corporate profits make such countries more attractive for both domestic and foreign investors.

The structure of taxes and charges levied in Ukraine includes the share of 31% of mandatory contributions to social security system (according to 2006 statistics), out of which about 28% is paid in by employers which largely raises their expenditures on labor remuneration and, therefore, downgrades competitive advantages of Ukraine's producers and slows down the creation of new jobs.

At the same time, Ukraine ranks last among Europe's post-communist countries in terms of taxation rate on consumption. In 2006 the share of general and special taxes on consumption in Ukraine made up 28.2% while in the other countries of the region it constituted 30.1% - 48.4% of the overall amount of taxes and charges. Conversely, the share of corporate tax in Ukraine made up 12.5% while in Poland, for instance, it constitutes 7.3%, in Hungary - 5.5% and in Slovenia - 7.2 %.

Accumulation of non-reimbursed amounts of VAT from the budget continued in 2007. As of 1.10.2007, the amount of such arrears reached 8.3 billion UAH as compared with 6.8 billion UAH in early 2007 and 4.2 billion UAH in early 2006. The non-reimbursed VAT arrears with overdue repayment date (about 3 billion UAH) are actually changing the nature of VAT moving it from the consumption tax category into "additional profit tax".

Therefore, tax reform must be considered a key priority for the state economic policy. The main tasks of tax policy in 2008 must be as follows:

Settlement of the problem of delayed VAT reimbursement from the budget, which requires the following steps:

Recover overdue non-reimbursed VAT amounts (with the exception of those that are under consideration in the courts of law);

Introduce a simplified procedure of VAT reimbursement for those exporting companies that are bona

fide taxpayers upon determination of bona fide criteria;

Impose responsibility on state authorities and officials for unjustified delays of VAT reimbursement and providing a legal definition of "budget arrears on VAT reimbursement" and accrual of extra charges on such arrears;

Monitor the VAT status electronically;

Close loopholes in legislation that enable embezzlement of budget funds through alleged VAT reimbursement.

Drafting of a new Tax Code of Ukraine and its adoption by the Verkhovna Rada in the first half of 2008 must address the following issues:

Predictability of tax rules in a strategic perspective;

Gradual reduction of tax burdens;

Reform of methodology for VAT calculation;

Maximum approximation of profit tax accrual to accounting standards;

Elaboration of clear time- and space-constrained tax tools to stimulate economic activity;

Introduction of mechanisms to stimulate investment activity and energy saving measures;

Streamlining of taxation rules to prevent abuse in the area;

Introduction of local tax on real estate;

Transition to a new system of charges for use of natural resources which would stimulate rational use, protection and proper regeneration of natural resources;

Clear spelling out of rights and duties of both taxpayers and controllers.

### **2.2.2. Realization of the industrial potential**

Industry remains one of the biggest sectors of Ukraine's economy in terms of production output and mobilized resources. At the end of 2006, the industry accounted for 29.3% of added value, 46.6% of manufactured products, 35.7% of fixed assets, 32.3% of working capital and 35.8% of investments. In 2006 the economy had 54,400 industrial companies with more than 4.0 million employees, or one fifth of all those employed in the country. Starting from 1999, one can observe positive dynamics of building up the volume of industrial production following the period of deep recession. During 1999-2006, the volume of industrial production increased twofold and came close to that of 1990 (98.1%).

Growth continued in all basic types of industrial activity (fig.2.4) in 2007. The increase of industrial production made up 10.2% and grew almost twofold compared with 2006. There was a faster growth of processing industry while the rate of growth of mining industry declined by more than half as compared with the previous year.

Industry achieved the highest rate of growth, almost 2.5 times more as compared with the previous year as a result of expansion of domestic consumption and investment demand and increased volume of sales of Ukraine's machine-building products in the external markets. A noticeable gain was also recorded in the food industry, wood processing and wood products output, iron and steel industry, and manufacturing of finished metal articles.

At the same time Ukraine's industry has preserved serious structural imbalances. Industrial production has clearly become focused on raw materials while the share of technologically sophisticated and capital-creating industries and consumer goods manufacturing industries has dramatically declined. While in 1990 the share of industries specializing in raw material production made up 33.2% in the structural breakdown of sold products, by 2006 this share doubled and went up to 67%, and up to 66.9% between January and November of 2007. Conversely, the share of consumer goods (food and

light industry) declined by half over that period (from 33.6% in 1990 down to 17.9% in 2006 and 15.8% in January - November 2007). As a result of these changes Ukraine's economy became much too vulnerable and dependent on external terms of trade. The raw material bias of production does not create grounds for a dramatic growth of household income and increased labor productivity.

The biggest blame for the raw material bias in the industry lies on iron and steel production and metal processing. While in 1990 the share of this industry made up 12.1% in the structural breakdown of sold industrial products, in 2006 it went up to 21.9% and in January-November 2007 up to 24.9%. The share of sold machine-building products declined from 30.5% in 1990 down to 12.5% in 2006, and then it slightly went up to 14.1% in 2007. Light industry practically dwindled to nothing: it shrank ten times in the structure of industrial production, from 10.8% down to 1.1%, and continued to drop in January-November 2007 (down to 0.9%).

Controversial trends were observed in the financial status of industrial companies. The financial performance of profit-making companies in this sector of economy grew by 24.8% over eleven months. Conversely, the share of loss-making industrial companies declined from 39.4% down to 36.7% over January-November 2007. In terms of profitability, the iron and steel industry comes first: with its share of 24.9% of sold products, its share in the industry's profits made up 32.4%. On the other hand, the machine-building industry, with its 14.1% share of industrial production, had a 10.6% share of the overall profits. A noticeable deterioration of profitability occurred in the food industry: the profits in that business only grew by 8.6% as compared with the same period of the previous year while the rate of growth of wholesale prices in it made up 23.3% as compared with November of 2006. On the whole, in spite of the earlier-mentioned growth of consumer demand and its production volume, that branch, with its 14.3% share of total industrial production, came up with a share of only 8.7% of all profits made by industrial companies.

An important factor of structural dynamics in 2007 was the intensification of investment processes. As was shown above, according to the statistics for January-September, the real gain of investments into fixed capital made up 28.5%. The highest rate of growth of capital investments was observed in the financial sector (60.3%), public administration (54.7%), utilities and similar households' services (by 47.9%), trade (43.4%), processing branch (42.7%), real estate transactions (36.5%). Dynamics of investments into fixed capital in industry was 2.5 times higher than in 2006 (30.0% against 11.9%) but the share of investments into it only made up 38.2% of total capital investments. The decline of dynamics of capital investments was only observed in generation and distribution of electricity, natural gas and water supply (-15.1%). This decline was linked, to a large extent, to the slowdown of the state investment activity due to the change in budget spending priorities during the election campaign. Realization of the planned targets for investment expenditures from the state budget was at its lowest in financing of housing and utilities (26.6% of the set target for January-September period was reached in the general fund and only 7.4% of the annual expenditures target in the state budget).

The main factors behind accelerated investment processes in Ukraine were:

Increased motivation of economic agents to modernize production facilities in the enhanced competitive environment of external and domestic markets;

Increased cost of the underlying resources (energy, raw materials, labor) focused the need for modernization of production in order to raise its return on resource input;

Increased paying capacity and economic performance of companies owing to favorable international terms of trade and a dramatic hike in domestic demand;

Intensification of lending activity of banks and a gradual decline of the real cost of lending;

Buoyancy of international investors, largely owing to the improvement of business environment following harmonization of Ukraine's legislation with WTO standards.

Nevertheless, in spite of the high rate of growth of investment expenditures, their structure remains ineffective and is not oriented toward realization of strategic priorities of economic development. The structure of investment dynamics is directed primarily toward preservation of the current ineffective composition of Ukraine's manufacturing industry. But in spite of the fact that the processing

industry grew faster as compared with the mining and extraction industries, and its share in the total volume of investments into manufacturing industry grew by 5.5 percentage points up to 70.9%, the bulk of the gain in investments was secured by iron and steel branch (69.6% of growth) and food sector (44.1%). In consequence, 56% of investments into fixed capital in the processing industry were concentrated in these branches, and their share, as compared with the previous year, grew by 7.7 points (fig. 2.5).

A faster growth of capital investments into iron and steel industry points to the efforts to capitalize on the current ascending price trend in the world market with regard to products of primary redistribution and semi-manufactured goods. However, the investments mostly aim to maintain the status quo in the industry, as was the case before. Capital investments into iron and steel industry (production of cast iron, steel and ferroalloys, pipe manufacturing, metal founding) are growing at a faster rate and increased by 77.6% over nine months of 2007 as compared with the respective period of 2006. On the other hand, manufacturing of finished metal articles (metal building constructions, liquid holding tanks, radiators, central heating boilers, steam boilers, articles made through forging, pressing, molding, swaging and profiling techniques, powder metallurgy articles, etc.) received 12.4% less investments over this period than over the respective period of the previous year, and the share of that branch in total investments into metallurgy dropped from 9.3% down to 4.6%.

A good sign of appreciation by investors of strategic investment attractiveness of food industry was channeling of inter-industry flows of investments into this sector in spite of deterioration of its profitability.

Regrettably, one cannot draw a similar conclusion with regard to crucial innovation-oriented industries. Suffice to say that, judging by the results of January-September period, investments into chemical and petrochemical industries only grew by 3.6%, and by 21.6% into machine-building. The growth of capital investments into machine-building industry was primarily ensured by investments into manufacturing of transport vehicles and equipment (the overall gain of 31.3%, and 40.4% gain in the automobile industry). At the same time, the rate of growth of capital investments into manufacturing of machinery was half as low - 17.3%, into manufacturing of electric, electronic and fiber optic equipment - 13.9%.

The consequence of this process was the lower share of investments into the fixed capital of such crucial branches of processing industry as chemical and petrochemical branch: by 2.8 percentage points (down to 7.5%), machine-building (with the exception of transport vehicles and equipment) - by 1.9 percentage points (down to 10.1%). There was also a decline of the share of currently depressed branches traditionally driven by consumer demand (light industry's share declined by 0.5 percentage points (down to 0.7%), coke firing and oil refining share declined by 2.6 percentage points (down to 4.8%), which further constrains their capacity to capitalize on the advantages of expansion of domestic consumption market.

Dynamism of Ukraine's economic growth in 2006 - 2007 was one of the main factors for a substantial increase in foreign direct investments into Ukraine. The increase during nine months of 2007 (according to government statistics and without taking into account the undistributed ones by types of economic activities and privatization proceeds) made up 4510.7 million USD, which is by 61.2% more than over the respective period of the previous year. As of 01.10.2007, Ukraine attracted 26856.6 million USD of foreign direct investments, i.e. by 24.2% more than at the start of the year, and now Ukraine has, on the average, 576.2 USD of direct foreign investments per capita.

Nevertheless, the efficiency of foreign investments, in terms of their impact on Ukraine's economy through positive structural changes and transfer of technological know-how to upgrade the economy, remains extremely low. According to government statistics, foreign investments only made up 3% of the total investment sources. Foreign investors are driven, for most part, by their search for highly profitable segments of Ukraine's economy and quick returns on their investments. Thus, 46.6% of direct investments made into Ukraine's economy as of 1.10.2007 landed in financial sector, trade, hotel and restaurant business, and real estate operations. Conversely, the share of investments into industry went down to 36.3% against 44.6% observed in late 2005. It should be noted that the share of foreign direct investments into machine-building and chemical/petrochemical branches which traditionally create the bulk of innovative products in economy made up respectively 5.0% (1027.5 million USD) and 3.8% (787.6 million USD) of cumulative amount of foreign direct

investments. During the period of 2005 - nine months of 2007, foreigners invested as little as 370.4 million USD into machine-building sector and 320.8 million USD of direct investments into chemical and petrochemical industry.

The most attractive for foreign investors during the three quarters of 2007 were the financial sector (37.3% of inflows during nine months or 1688.4 million USD), mining industry (12.95 or 585.4 million USD), and construction industry (12.5% or 567.1 million USD).

At the same time, the share of foreign investments into processing industry declined during this period, as compared with the respective period of 2006, by 5.6 percentage points - down to 17.1%. As regards capital investments into manufacturing industry, the food industry received 5.3% (239.9 million USD), production of non-metal mineral commodities - 4.1% (187.8 million USD), chemical and petrochemical industry - 2.9% (131.3 million USD), iron and steel industry and manufacturing of finished metal articles - 1.7% (76.2 million USD), machine-building industry - only 1.4% (64.7 million USD).

The above-described trends point to a moderate impact of investment processes in Ukraine on the dynamics of technological modernization of the national economy. A relatively high dynamics of economic growth in Ukraine is not based on renewal of technologies and innovations that support competitiveness of national economies in today's world. Potential growth of investment imports and high rates of growth of machine-building production fall short of being used for the renewal of production facilities. At the current speed of upgrading capital assets in manufacturing industry, at the rate of 4-5% annually and the degree of wear and tear of about 60%, it would take at least 25-35 years to fully replace the manufacturing machinery. This is far below the need of quick modernization of production facilities and is fraught with danger of declining production efficiency and labor productivity, as well as the growing probability of man-made disasters.

A low-tech structure for manufacturing industrial products largely continues to prevail due to ineffective distribution of investments. Thus, during nine months of 2007, about 85.0% of all investments into processing industry landed in low-tech and medium-tech branches<sup>6</sup>. Compared with the respective period of the previous year that share grew by 3.0 percentage points.

The current structure of production in processing industry and the structure of capital investments are to be blamed for a low rate of quality reproduction of labor and its inferior qualifications. The proportion of industries which engage low-tech labor<sup>7</sup> for manufacturing purposes is still overriding. In fact, it made up 57.8% over nine months of 2007. These industries also channel the lion's share of investments into capital assets (83.5%).

Along with the unsatisfactory course of reproduction of labor and equipment, the industry has also run into a serious problem as it needs to develop an effective organizational arrangement in this sector of economy. Organizational reforms are conducted in the industrial nations with a view to consolidate capital and raise their expertise through transfer of auxiliary functions to specialized companies and moving their production facilities to less developed countries with cheap labor and materials. It enables them to focus on developing new technologies and products, and the main forms of organizational transformations in big business have acquired the form of mergers and acquisitions leading to emergence of super-powerful transnational corporations, and to regional clusters in the case of small and medium businesses. Ukraine is a different case. One can observe here a controversial combination of production divestiture with preservation of a number of ineffective sector monopolies. Those Ukrainian companies that have become part of international division of labor focus mainly on manufacturing products with a low added value. One can also see here the unbundling of companies both within their industries and in the inter-branch dimension.

The few vertically integrated companies that slowly begin to re-emerge in Ukraine are much too weak as compared to their foreign competitors. They have an amorphous conglomerate structure and multi-vector specialization and are working in raw materials and mining sector rather than in high-tech industries, which contributes to raw materials specialization of Ukraine. This hampers modernization and restructuring of Ukraine's industry along the lines of advanced technological and organizational innovations.

<sup>6</sup> According to OECD classification

<sup>7</sup> According to M.Peneder's classification: Peneder M. *Entrepreneurial Competition and Industrial Location*. - Cheltenham, UK: Edward Elgar, 2001.

Therefore,, realization of Ukraine's industrial potential is one of fundamental principles of competitiveness of the country's national economy. It requires implementation of consistent industrial policy aimed at enhancement of Ukraine's competitiveness and securing Ukraine's entry into the club of industrial nations through the establishment of a modern industrial complex which would be integrated into the world economy and capable of innovative development.

Priorities in the industrial reform must be:

Streamlining the structure of industrial production, enhancement of the role of domestic markets. and accelerated development of research-intensive industries and high-tech industrial production activities;

Innovative technological modernization of industrial production by increasing the share of state-of-the-art industrial facilities with in-depth processing capabilities and output of end consumption products;

Implementation of the energy-saving model of development through a wider use of non-conventional and renewable sources of energy, diversification of energy supplies, and formation of an effective structure of power-generating capacities.

In this context the structural streamlining of production must go along the following lines:

Focus on specific segments of domestic and external markets where domestic producers already have or can quickly win a competitive edge on the basis of favorable internal conditions of Ukraine's national economy;

More consistent use of national research and development solutions, the most up-to-date achievements of fundamental and applied research, and wider use of benefits offered by integration and globalization;

Promotion of potential in industrial and technological processing and creation of the environment for improvement of industrial reproduction structure by embracing a higher-level technological approach;

Governmental support of a faster production growth in processing industry, primarily of research-intensive and high-tech production, promotion of development and introduction of new types of products, materials and technologies into mass production cycle.

Given that Ukraine's economy is at the stage of transition from renewable growth to a new cycle of development, it faces a dramatic problem of laying down a sufficient investment foundation for future development. Within the next five to seven years, the rates of growth of capital assets should exceed at least twofold the rate of GDP growth while the level of accumulation of capital assets should increase from 24% of GDP (2006) up to 33% in 2012. The coming five years are decisive for building the foundation of a competitive, modern structure of production where knowledge is the main resource for development.

A more intensive attraction of private investments into high-priority sectors of the economy requires the following:

Building up a national financial system with a view to establish long-term investment lending mechanisms, competitive allocation of state investment resources, effective concentration of household savings to finance the needs of economic development;

Quick reform of depreciation system through its liberalization and enhancement of its investment bearing;

Introduction of mechanisms for participation of individual investors in operations of the financial market;

Establishment of a reliable legal system for stimulation and attraction of private investments into the development institutions;

Elaboration of an action plan in order to form a favorable investment climate within the framework of declared priorities of socio-economic development, elaboration of regional plans for enhancement of investment attractiveness of the regions taking into consideration the specifics of their resource potential;

Development of public-private partnership to support investment and innovative activities;

Ensuring an ongoing interaction between the executive authorities and business community, improvement of information support for implementation of investment projects;

Development of long-term lending programs for individual investments, including the improvement of energy efficiency of housing stock, education, housing construction, etc;

It is also necessary to take a number of institutional measures to enhance industrial efficiency and improve mechanisms for state regulation of industrial development. In particular, it is necessary to establish an information and analytical system to monitor terms of trade in the market, strategic foresight, forecast innovative and technological development as well as strategic planning of industrial development through attraction of both public and private funds for realization of strategic plans.

Organizational structure of the industry has to be improved with a view to stimulate capitalization and integration of businesses, develop corporate relationships, eliminate controversies between concentration of industrial production and anti-monopoly policy, and expand regional clusters. The common aim of industrial and anti-monopoly policy must be the establishment of large vertically-integrated structures in high-tech sectors which would be capable of giving a boost to innovative activities and ensure growth of competitiveness. Competition policy must focus on the introduction of mechanisms for combating concerted anti-competition activities.

### **2.2.3. Status of innovative activities and development of a national innovative system in Ukraine**

As was mentioned above, the overriding policy for enhancement of competitiveness of national economy and development of up-to-date tools for successful competition must ensure that a high level of innovative activities is pursued by Ukraine's companies. Regrettably, it must be said that the period of socio-economic transformations in Ukraine was characterized by a decline in research and development and innovative activities. The number of organizations engaged in research and development had not grown between 2000 and 2006, and the number of researchers in Ukraine's economy declined by 17%. The share of revenues from the accomplished R&D projects makes up about 1% of Ukraine's GDP, and the share of companies dealing with innovations and putting such innovations into practice declined during this period by 6.8 and 4.8 percentage points respectively.

According to the global index of competitiveness, Ukraine ranked 53rd in 2007 among 131 countries surveyed in terms of higher education and professional training, 93rd in technological development, and 65th in innovations.

Thus, the high rate of economic growth failed to establish incentives for upgrading production facilities and intensifying innovative activities. In spite of 1.7 times increase in expenditures for innovations (up to 5837.5 million UAH) and increase in sales of innovative products by 25.4% during the period of January - September 2007 as compared with the respective period of the previous year, innovative activities of the industrial companies are an all-time low. Only 900 companies pursued innovative activities in the mentioned period, and that is by 8.3% lower than in January - September 2006. As a result, the share of innovatively active companies declined by 1.1% down to 8.8%.

During nine months of 2007, about 36.7% of innovation expenditures were concentrated in iron and steel industry, 23.7% was the share of machine-building branch, 10.1% in the production of coke and oil refining products, 13.2% in chemical and petrochemical industry, 8.8% in food industry. As compared with the respective period of 2006, the share of machine-building in the structure of innovative expenditures declined by 14.5 percentage points down to 23.7%, though in absolute terms the volume of innovative expenditures in the industry rose. The share of innovatively active companies in the machine-building branch declined by 1.5 percentage points and went down to 17.1%. Also, the share of machine-building in the structure of sold innovative products declined by 0.9 percentage points down to 31.4%.

Alarming is the trend toward the decline in a number of embedded new technologies in Ukraine's industry. While 1168 new technological processes were embedded over nine months of 2004 and 1383 in 2005, their numbers declined dramatically and went down to 566 and 499 respectively in 2006-2007. Only 18.2% of innovatively active companies embedded new technological processes over

January - September of 2007. The number of embedded innovative types of products also declined by 14% and went down to 1426 titles.

It is big companies that are most perceptive toward innovative. Thus, among companies with more than 5000 employees, 64% of them were engaged in innovative activities in the first six months of 2007 while among those with 50 and up to 5000 employees - only 17%. One of the critical reasons behind a low rate of innovative activities of small and medium businesses is the lack of financial support to innovative projects. Since such projects usually have a high degree of venture component in them, the cost of borrowing for implementing them is much too high. Coupled with that is a low level of profitability of operations of industrial companies, which results in lack of their own capital in most of them to be able fund innovations. Many companies carry out very little innovative work in proportion to their capacities due to low competitiveness of their products as a result of technological gap in their production.

The development of an effective national innovative system is hampered by a number of negative factors, such as:

Structural distortions in industry with a bias toward low-tech production companies, which are less prone to innovations, and lack of favorable climate to attracting investments into a high-tech production area;

Distorted structure of exports where the share of products with a high degree of processing remains low, and it is this kind of products which is more prone to innovations (studies have shown that in those companies that operate on external markets the degree of innovative activities is considerably higher);

Imperfection and inefficiency of the state policy for identifying strategically innovative priorities of national economy;

Imperfect legislation in respect of state stimulation of activities in the R&D and innovations area, taxation system being unresponsive to the needs of innovative development;

Lack of adequate financing for fundamental scientific research, failure to follow the legislative norms with regard to funding R&D and innovative activities;

Collapse of the mechanism for organizational interaction between R&D and manufacturing sector;

Underdeveloped infrastructure for innovative entities (business incubators, techno-parks, techno-polis amalgamations, clusters of high-tech companies, etc.) and for small innovative companies;

Imperfect system for acquisition, use and protection of intellectual property rights;

A low level of engagement of national manufacturers of high-tech products in international technological cooperation and exchange.

A low level and structural distortions of innovative activities is a direct implication of underdeveloped national innovative system in Ukraine. Its main elements, such as R&D community, innovations infrastructure, companies, owners of intellectual and material resources, operate in isolation from each other and are not impacted by structural changes in economy. Scientists and researchers are washed out from R&D community which only retained one third of the number of employees there in 1991. The state system of scientific and R&D programs in Ukraine does not provide cooperative links between R&D institutions, universities and companies. The budget funds for the scientific and technological development are dispersed among a large number of spending institutions such as ministries and government agencies, which constrains an effective coordination of scientific and R&D projects and is not conducive to consolidation of financial resources of the state for implementation of comprehensive inter-industry R&D projects. Networks of organizational and economic structures, such as clusters, industrial-financial groups, holding companies, etc, which are called upon to facilitate interaction of technologically-related companies, R&D facilities and financial institutions on the regional level have failed to properly materialize. Efficiency of 16 technological parks established on the territory of Ukraine leaves much to be desired. 26 projects with 5.8 million UAH of investments were in the implementation stage in the first half of 2007. The overall amount of proceeds from the

sales of their innovative products (including VAT) amounted to 1.5 billion UAH. In the first six months of 2007, technological parks failed to launch a single innovative project.

Interaction between various components of the national innovation system is significantly hampered by the lack of transparent information about new technologies and the prospects for sales in the markets of innovative products, and prospective high-yield innovative facilities for capital investments. In spite of the fact that Ukraine has the necessary potential of scientists and researchers as well as methodological support, it has not yet established an adequate system for scientific and technological foresight and innovative forecasting, such as forecasting the demand for innovative products, among other things. The provision of Ukraine's legislation regarding the use of program-targeted management, in particular concerning the development of scientific-technological programs for implementation of the opted priorities, is not properly used to meet the needs of innovative development. The state management system for innovative development of Ukraine's economy cannot be considered effective as the management functions are "dispersed" among several executive agencies of the central government.

Preservation of ineffective structure of production and investments restricts Ukraine's prospects to get on the track of steady economic growth and gain a strategic foothold in the world market. Technological incompatibility of Ukraine's economy with the industrial countries is getting bigger. This is also true of the EU that has assigned a role for Ukraine in the international labor division as a supplier of primary treatment products with a low added value. Current dynamics of investment processes is poorly correlated with the real sector needs in innovative technologies and materials. Slow progress in the dynamics of Ukraine's economic development hampers structural and functional changes in its national economy aimed at enhancement of its competitiveness. This competitiveness is based on technological upgrading, i.e. transition to a new quality of Ukraine's economic development. As a result of this slowness, the trend to increased technological gap between Ukraine's industry and that of industrial nations in most processing and high-tech branches persists further. Embedded in social, organizational, manufacturing and technological structures, the gap creates new technological barriers for the country's development which are hard to overcome as the time goes. Inefficient use of Ukraine's labor potential introduces systemic barriers for reaching the targets of consistent increase of labor remuneration level and investment into human capital. Procrastination with introduction of fundamental principles for an innovative model of development lays the ground for a long-term trend of declining competitiveness of Ukraine's national economy.

Unless the outlined problems are immediately resolved, building up a competitive national economy will hardly be possible. Therefore, the priority tasks of the innovative policy of the state are:

Completion of elaboration of the Concept for development of the national innovation system with proper legislative and institutional support for its realization;

Legal regulation of the components of the national innovation system: business incubators, techno-parks, techno-polis amalgamations, venture funds, "business angels", etc., and mechanisms for their interaction with each other and with other subjects of innovative activities;

Promotion of establishment of vertically-integrated R&D and production facilities with a complete technological cycle from innovative development down to production, sales, and technical support to operation of new products based on economic integration of the affiliated R&D institutions and beneficiaries of their research and development projects;

Encouragement of partnerships, alliances and other organizational structures that bring together science, higher education, production and R&D, and offer the opportunity to implement large-scale inter-branch projects for creation and manufacturing of high-tech products;

Restructuring the system of innovative development strategic priorities, which provides for the following:

Reduction in the number of priorities for innovative development and keeping those where Ukraine has a considerable scientific and technological advantage and prospects for future development (high-tech machine-building, functional and construction materials and articles made of them, chemical and pharmaceutical technologies, biotechnologies, information technologies and communication systems, nanotechnologies);

Introduction of special programs to stimulate innovative entrepreneurship in the outlined priority areas, to which aim it is feasible to draw upon best practices of EU countries (in particular, support to higher priority areas of research within the 7th Framework program);

Improvement and enlargement of the range of financial support measures to innovative projects, including:

Improvement of mechanisms for the program-targeted funding of innovative projects;

Simplification of the procedure for conducting state-run expert assessment and registration of innovative projects, including innovative projects for techno-parks;

Allocation of budget expenditures for R&D in proportion to expenditures for conducting fundamental and applied research, design and experimentation of prototypes;

Introduction of adequate selection criteria for state-sponsored investment and innovative projects, including amendments into the Law of Ukraine "On Innovative Activities"

Extension of the period of validity for state-registered innovative projects up to 5 years (the period will be aligned with the standard period of innovations recoupment);

Provision of targeted subsidies to companies that implement innovative projects, in the amount of 50% of tax on profit made through implementation of such projects, provided that such subsidies should then be invested into innovative activities;

Extension of the period for repayment of tax promissory notes that are issued, in case of imports, to the amount of tax liability strictly for the output of high-tech products, machinery and equipment as well as spare parts for such equipment if these are not manufactured in Ukraine; application of higher depreciation norms in respect of those high-tech manufacturers that implement innovative projects;

Introduction of the mechanism for investment-innovative tax credits in the form of deferral of profit tax payments for implementation of investment (innovative) projects (programs), development of mortgage lending mechanisms for innovative projects, creation of favorable conditions for intellectual capital development, which implies the following:

Adhere to the legislated norms for financing of science and education, as a basis for ensuring competitiveness of Ukraine, in the amount of at least 1.7% of GDP;

Decentralize and promote flexibility of vocational training;

Implement measures in support of development of small-scale innovative entrepreneurship;

Establish adequate protection of intellectual property that provides for:

Improvement of legislation that regulates protection of intellectual property;

Simplification of the patent granting procedure;

Development of a unified database in respect of available cutting-edge technologies and possibilities for their introduction into production;

Pursuance of measures of state humanitarian policy aimed at the formation of modern culture of innovations, evolution of social perceptions toward recognition of higher value of creative labor, self-improvement and self-education, entrepreneurship with an embedded public responsibility, law-abiding culture and legal competence;

Legislative promotion of favorable conditions for Ukraine's companies, inventors, and researchers in terms of commercial introduction into mass production of high research-intensive technologies, including those developed by state-sponsored R&D institutions with funds from the state budget, as well as development of infrastructure in support of marketing for such technologies, and support of public-private partnership in the area of marketing and use of such technologies.

#### 2.2.4. Energy efficiency as a factor of Ukraine's economic competitiveness

Energy efficiency and energy conservation are the underlying factors for reduction of Ukraine's energy dependency, increased competitiveness of its economy and well-being of its people. Ukraine belongs to a group of countries with the highest energy consumption for production.

Over the recent ten years the energy consumption share of Ukraine's GDP tends to decrease (fig. 2.6). During the period from 2000 to 2006, this indicator, which was at its peak in 1995 (1.2 kg of conventional fuel/UAH1), declined from 0.99 kg of c. f. /UAH1 down to 0.76 kg of c.f. /UAH1, or by 23%. However, the unit consumption of primary fuel and energy resources in Ukraine is 2.4 times higher than the world average and 3.1 times higher than in the countries of Europe. A high level of energy expenditures leads to a lower share of expenditures on labor remuneration in the cost of products, and it ties up the working capital of companies and depletes their investment resources. Due to the growing energy prices over the recent years, the problem of low energy efficiency of Ukraine's economy is becoming particularly acute.

A high energy-consumption share of Ukraine's GDP is due to a big technological gap in most areas of its economy as well as in housing and utilities sector and in the current structure of national economy. The main reasons for this situation are:

A dramatic fall in production in the 90-ies and breakdown of the regular mode of operations of industrial companies which led to the growth of share of ongoing expenses and, consequently, to the growth of share of energy spent per each unit of production;

A low technical level and low energy efficiency of manufacturing equipment due to scarce investments;

60% wear and tear of production facilities in the fuel and energy complex, as investments into broad-scale rehabilitation of fuel and energy companies only make up 2% of primary cost of their capital assets;

Limited competition in a number of markets, such as housing and utilities and energy supplies markets, which allows producers to compensate for irrational expenditures of energy and other resources by raising prices for their products;

Ineffective price policy in the energy sector which does not encourage economic agents and households to lower their energy consumption and allows cross-subsidies;

Prevalence of administrative and control measures in the implementation of energy-saving policy; due to the lack of proper institutional support for this policy it is left outside the vision of industrial ministries and local governments.

Raising competitiveness of national economy requires a substantial improvement of its energy efficiency. According to the study made by the Committee for Energy Efficiency, potential energy savings in Ukraine, if compared to the reference year of 1990, could make up 145 - 170 million tons of conventional fuel, or 42% - 48% of the current volume of consumption of primary energy resources. The biggest share (55% - 58%) in the structure of these potential savings is that of industry, which is due, to a large extent, to a large number of high energy-consuming manufacturing facilities. According to expert estimates, the decrease of energy consumption in GDP by 0.1 tons of conventional fuel/ USD 1000 is equivalent to the gain in the GDP rate of growth by 0.030% - 0.035%.

Nevertheless, the decline of energy consumption in Ukraine's GDP is not due to the increased energy efficiency of its economy. It is rather linked to the growth of GDP and a bigger share in its structure of non-manufacturing sectors with a traditionally low energy consumption level. The described evolution of industrial structure and the structure of investments into economy and the situation in the field of innovations indicate the lack of adequate and consistent actions on the part of economic agents which should be aimed at achieving higher energy efficiency. Measures of state energy savings policy are implemented very slowly. The Comprehensive National Program for energy conservation in Ukraine, elaborated in 1996 and effective through 2010, lacks funding. A mere 165 million UAH were appropriated in the state budget for energy savings in the year of 2006, and the overall amount of investments over all these years only made up 3,079 million UAH.

At the same time, a dramatic decline of energy consumption in GDP down to an economically acceptable level of competitiveness is impossible without restructuring national economy by developing intangible production industries and increasing the share of research-intensive high-tech products in the manufacturing industry.

Proceeding from the objective of substantial increase of energy efficiency in Ukraine's economy and given the country's experience in this respect as well as the experience of industrial nations, the state policy along these lines must be stepped up and aimed at establishing the system of economic tools with a view to secure channeling of higher priority financial resources to energy savings and energy efficiency. Additional spending linked to irrational energy use, environmental pollution and elimination of negative environmental implications must be covered by squanderers and polluters rather than by the society at large. The basis for this system must incorporate such underlying principles as:

A higher priority for market mechanisms and limitations on administrative control mechanisms when implementing energy efficiency policy;

Improvement of public management and introduction by the state of such managerial impact that is geared toward the needs and interests of those energy consumers that are interested, in the first place, in raising a return on energy;

Coupling economic incentives with pecuniary liability, introduction of energy-saving culture to all energy consumers without any exceptions to the rule;

Maximum use of initiatives and resources coming from the regions, economic agents and households, a wider use of non-conventional and renewable sources of energy;

More stringent discipline on the part of local authorities regarding energy efficiency in the housing and utilities sector;

To achieve dramatic reduction in energy consumption of manufacturing industries, a decrease of external energy dependence, and enhancement of energy-saving measures it is necessary to:

Create the environment conducive to attraction of investments into energy-efficient projects (channeling proceeds from penalties imposed on energy squanderers and environmental polluters toward investments needs; providing targeted state subsidies for implementation of national energy-saving projects; putting the Kyoto protocol mechanisms to good use, etc.);

Provide tax benefits to the companies that introduce energy efficient equipment, put to use secondary energy resources and household waste, as well as resort to non-conventional and renewable sources of energy;

Ensure that market-economy principles of price formation are applied, and improve mechanisms of tariff-setting through the establishment of direct cash settlements between suppliers and consumers of energy, elimination of state subsidies and pecuniary aid to suppliers of energy resources and services (providing targeted subsidies to consumers, if necessary), and changing methodology of tariff-setting for the services of power supplying utilities;

Encourage the installation of meters to monitor energy consumption, introduce tax credit incentives;

Improve legislation and regulatory norms for enforcement of energy-saving measures by introducing a system of standards, energy audits, state expert assessment, monitoring and control of the use of energy, issuing passports for high energy-consuming production facilities and technological processes;

Introduce and regulate the procedures for official publication of actual costs and periodic setting of marginal norms of energy efficiency;

Establish energy standards and labeling procedures for manufacturing of goods, machinery and materials, and harmonize Ukraine's standards with international requirements;

Streamline fuel and energy balance by decreasing the share of natural gas in the structure of consumption, build up the volume of domestic oil and gas extraction, tap new alternative sources of hydrocarbons, such as biogas, coal mine methane, concomitant gases of oil extraction, motor oils from plants;

Search for ways of gradual diversification of external sources of energy and eliminate monopoly dependence on energy imports through enlargement of the group of suppliers, building alternative routes for transit of natural gas and oil, etc.;

Promote public support for energy-saving policies through engagement of professional and public organizations as well as some economic agents, professional and industrial associations, through creation of information-advisory networks and by spreading information on energy efficiency with a view to inculcate energy-saving culture among the broad public;

Establish the practice of periodic national reports on implementation of energy-saving policy that will show stages of implementation, gained results, problems and ways of their addressing and set the agenda for the next stage.

### **2.2.5. Resource potential of the agricultural sector and efficiency of its use**

According to the estimate of the Institute for Economics and Forecasts under the National Academy of Sciences of Ukraine, the resource potential of the agricultural sector of Ukraine makes up about 10% of all the national wealth of the country. This sector provides 55% of the volume of domestic consumption market and 13% of export proceeds. Therefore, efficient use of available resource potential of the agricultural sector of Ukraine plays a crucial role in the overall strategy for enhancement of competitiveness of Ukraine's national economy.

Ukraine's land resources are conducive to agriculture. The country possesses 9% of the world's black earth, the rich topsoil with a high biological productivity accounting for a high natural quality of many agricultural crops. Ukraine is traditionally considered as an agricultural powerhouse with a large export potential. Exports of agricultural produce rose 3.5 times in US dollar terms during 2001-2006.

Nevertheless, in 2007 Ukraine used its land potential in an unsatisfactory way. The yield of most agricultural crops was largely behind most European nations. Low productivity of farmlands can be accounted for by inadequate efforts in protection and reproduction of soil fertility in the period of conducting a land reform. It is also due to agricultural re-utilization of big areas of the previously low-yielding and depleted lands. According to scientifically substantiated recommendations, no more than a third of arable lands should be used for active farming. In particular, such a principle has been declared by the EU.

The indicator of ploughed areas in Ukraine is 56.2%, while that of the overall agricultural utilization is 77.8%, which is among the world's highest in that respect. Consequently, the soil erosion is gaining scope and the content of humus is shrinking. Other quality characteristics impacting the level of yields are deteriorating just as badly. Soil degradation is assuming a threatening character, and occasionally it is irreversible. Therefore, a strategic objective in using the land stock of Ukraine must be its streamlining through the establishment of economically and environmentally substantiated ratios between different types of land use.

In the process of land reform, large-scale efforts were made to transform the land ownership and transfer the bulk of agricultural lands into private property. In the future there must a departure from the manual regulation policy vis-a-vis this sector of economy, and most favorable conditions must be created with a view to tap the investment potential of agriculture. It is necessary therefore to lift the moratorium on the sale of agricultural lands.

At the same time, one should bear in mind that the land reform in Ukraine has failed so far to reach its end objective. High-efficient and environmentally friendly use of land resources is still on the agenda, and land relationships are not yet fully aligned with the requirements of market economy. It is crucial at this stage therefore to reach a settlement and improve land relationships by taking into account the transformation of social relationships, economic situation, and principles of market economy, national and world trends in the development of land use and utilization of natural resources. In this respect one should bear in mind the prospects for Ukraine's accession to the global markets and the need to secure competitiveness of its agricultural produce, which requires rational approach to the land use in terms of its economic efficiency, protection of the whole land stock and organization of its environmentally friendly use.

A big problem for agricultural sector of Ukraine is its ineffective structure of human resources. There

is also an important demographic factor to be reckoned with as the share of rural population of economically active age from 15 to 70 years of age makes up 47%. The main place of employment for economically active rural inhabitants is agricultural production. However, even now the current level of employment is burdensome for the agricultural sector. Artificial overstatement of employment in agriculture by purely mechanical methods, i.e. accounting for the peasants working on their private farms, leads to an inefficient use of labor resources and lowers the average effectiveness of the use of land resources.

Evolutionary structural changes and inter-sector redistribution in favor of industry and services, as well as a large-scale migration of rural labor, trigger the trend of further reduction of employment in the agricultural sector. The number of employed persons in agriculture declined by 352,500 in 2006, and the number of hired labor went down by 122,800. Since 2006 there has been a marked trend toward a decline of employment on private farms, which fully correlates with the decline in agricultural production on private peasant farms over the recent two years.

The problems of formation of high quality labor in the agricultural sector are substantial, too. Specialists with an incomplete and basic higher education make up 14.9% of all accounted numbers of regular staff (24.7% for economy at large), and there is an even more striking difference as far as the number of specialists with a full higher education is concerned (8.7% and 27.3% respectively). A high turnover of staff is a common phenomenon on agricultural farms.

The share of rural population with cash income below subsistence level made up 66% in 2006 which was in excess of the share of poor population in urban centers (42%). Though the general level of wages in agriculture is rising, it only reached 50.9% of the level of wages in industry and 57.8% of the average level in economy as of October 2007. Throughout the period of economic transformations, the share of labor remuneration in the cost of agricultural produce continued to decline and only constituted 12% in 2006, which is 2.5 times less than in 1990. A low level of labor remuneration is largely due to an inadequate ratio of income distribution between labor and capital.

At the same time, it should be noted that there is a large technological gap in Ukraine's agricultural production as compared with the industrial nations. Ukraine is lagging behind by major parameters of production efficiency, such as labor productivity, energy consumption, crop yields, and cattle meat and milk yields. Therefore, a competitive advantage is mainly gained owing to a relative cheapness of resources, disregard for norms of depreciation of capital assets, and favorable natural conditions of the bulk of Ukraine's farmlands. These factors are fleeting and, therefore, the key task of development of agricultural sector remains an improvement of quality and structure of its resource potential and raising its return.

Currently the most problematic component of agricultural resource potential is the shortage of financial resources which leads to a decline of material and technological base of the sector, underemployment of labor, and growing signs of degradation of agricultural lands.

Combating the losses incurred by hard-working agricultural producers would require an improvement in price formation as well as raising prices for agricultural produce up to the level needed for a normal sustainability of production. According to expert assessments, the actual prices in Ukraine's market of agricultural produce are more than one third lower than the estimated sustainable price level, which could be deemed as objectively determined on the basis of the average level of expenses. Over the recent years, the level of profitability of Ukraine's agricultural companies has been higher than the average indicator for national economy as a whole. Based on the outcome of eleven months of 2007, the share of loss-making companies was only 14.1%. Loss-making level is much higher in the animal husbandry field. Incidentally, it is practically impossible to reach the required price ratio due to a low purchasing capacity of a large part of Ukraine's population. As a result of crisis transformations, there was a large decline in food consumption per capita. Even in 2006 it was lower by a quarter than the level of such consumption in 1990 and almost by one third lower than medically recommended norms for healthy eating. This is all in spite of the fact that the share of food expenditures in the average family budget over this period increased from 31% up to 55% and above 60% in 2007.

It is quite obvious that solving resource problems in the agricultural sector is only possible through a dramatic rise of production efficiency in the highly competitive environment of the agricultural produce market. It could bring about such a level of profitability which would be necessary for expand-

ed sustainability, provided that the price level is acceptable for the market. This puts a higher priority on the task of intensive attraction of investments into the sector. According to the government-approved National Program of Development of Ukraine's Rural Communities for the period till 2015, reaching the volume of agricultural production at the level of 1990 in absolute terms would require the renewal of technological base of agriculture by 15% annually. In the period between 2000 and 2006, investments into the capital assets of agricultural sector grew 3.6 times in comparable prices or more than by 20% annually, which means that the accomplishment of the indicated task is quite realistic. At the same time, the share of investments into agriculture in January - September 2007 made up 4.8%, which is much smaller than the share of agriculture in the cumulative economic expression both in terms of the employed population and in terms of output and GDP.

The policy of partial compensation of interest on loans to agricultural companies from the budget pursued over the recent few years has made it possible to significantly cushion the lending crisis in Ukraine's agriculture. A combination of budget transfers to make loans cheaper for agricultural companies with increased profitability of the latter led to an ascending trend of loan extension to agriculture. In the period between 2000 and 2006, the volume of loan resources to agricultural companies grew six times and reached almost 12 billion UAH in 2006. According to projections, this indicator will grow by another 20% in 2007. This will make it possible to raise loans at the level of 45% of production expenditures, which comes close to the desired volume of funding.

In the meantime high lending rates hamper further growth and development of financing agricultural sector through loans. These rates are still higher than the profitability rate in most agricultural companies, which means that the system of lending to agricultural sector cannot operate without receiving aid from the budget. Further development of financing through credits may be linked with tapping of non-banking credit resources as well as the development of mortgage lending with gradual formation of land market.

The task of preparation of agricultural companies and individual farms for operation in the conditions of full-fledged land market and averting possible negative trends due to agricultural sector lag in market reforms requires comprehensive market transformations in the agro-industrial complex of Ukraine, including:

Immediate adoption of the Law of Ukraine "On the Land Market" and "On the State Land Cadastre", as well as adoption of a set of legal norms that regulate the use and protection of lands;

Elaboration of effective economic mechanisms for stimulation and support of agricultural production through price, lending and tax policies and relevant institutional support, which would be in line with requirements from the WTO "green box" and EU standards and rules;

Development of mechanisms for attraction of the industrial business capital into agriculture, financial and servicing structures through organization of a large-scale agricultural production;

Introduction of market mechanisms for price regulation in the agricultural markets, including the state buffer stocks;

Enhancement of anti-monopoly control of the prices of material and technical resources, energy and services provided to agricultural producers with a view to streamline their expenses;

Creation of incentives, including through the use of mixed investments, for the development of infra-structural elements in the agricultural market, such as supply and sales systems, transportation of agricultural produce and facilities for accumulation, and storage of agricultural raw materials;

Introduction of measures to improve leasehold land relationships, such as legal mechanisms of control over the targeted use of leased land (land shares), improvement of legal mechanisms for protection of the rights of owners of land shares transferred for leaseholders, etc.;

Implementation of preparatory measures to prevent the loss of control over the use of agricultural lands following their sale - through elaboration of laws and regulations, legislative consolidation and instrumental support in order to exercise control over the compliance with requirements of potential buyers of land plots and the use of land intended for agricultural purposes;

Creation of organizational, legal and socio-economic conditions for a comprehensive development of rural areas, ensuring that social standards and norms for residents of rural communities are met, and regional programs for a comprehensive development of rural areas are devised and implemented.

### **2.2.6. Infrastructure of Ukraine's economy as a factor of its competitiveness**

The importance of infrastructure for creating favorable conditions with a view to ensure competitiveness of the national economy is ever more growing in modern economic environment. Transport and communications are important components in the structure of Ukraine's economy and significant factors for realization of its geo-strategic potential, the country's growing role in the international division of labor, and its integration into global economy and trade. Stable and efficient operation of transport and communications is an indispensable prerequisite for securing defense capabilities, national security and integrity of the state, and raising living standards for its people.

Transport industry demonstrated positive growth during eleven months of 2007 in spite of some slowing down of the rates of growth (7.8% against 10.0% during the respective period of the previous year). Transport companies carried 822.3 million tons of freight over that period which was 5.9% more than in January - November of 2006. Freight turnover made up 447.3 billion ton-km, which was by 2.7% more than during the respective period of the year before. There was a fast growth of freight turnover in aviation transport, which rose by 19.2%, that of motor transport - by 18.3% and freight turnover on railroads grew by 9.6%. Throughout the year the passenger transport did 144.4 billion of passenger/kilometers, which was by 3.7% more as compared with 2006. Nevertheless, there was a decline in passenger transit numbers at sea and railroads.

At the same time, sustainability of achieved positive indicators remains rather uncertain, which could be linked primarily to a high degree of wear and tear of capital assets in the transport industry amounting to 63.6% in early 2007. Over the recent 10-15 years, the bulk of investments into transportation was directed at the maintenance of old assets rather than renewal of fixed assets, which led to massive use of forced repairs and rehabilitation of capital assets instead of real accumulation.

Communication industry is one of the most stable and dynamic branches of economy. It secures a fairly high rate of growth of services, improvement of their quality, introduction of new services and technologies, and construction of communications networks. The volume of communication services provided by operators of all forms of ownership reached 36.1 billion UAH during January - November of 2007, services for households amounted to 14.3 billion UAH, which was by 19.3% and 18.2% higher than over the respective period of the previous year. Consumption of communications services per capita in Ukraine grew by 20.3% and made up almost 247.2 UAH by October 2007.

In the overall volume of provided communications services, the highest rates of growth were demonstrated by the local telephone communications (29.6%), transmission and reception of television- and radio-broadcasting programs and radio communications (29.2%), mobile communications (26.9%) and computer-delivered communications (27.4%), including internet access (26.5%).

2007 saw some deterioration of capital asset renewal in the sector. The operators of all forms of ownership spent about 7.0 billion UAH of capital investments during nine months of 2007 which was by 6.3% less than in the respective period of 2006. At the same time, 85.8% of funding for development of telecommunications sector and postal services was provided at the expense of their own capital, 4.6% of financing came from foreign investors, and 9.6% from other sources of funding. The trend toward the growing volume of attracted foreign direct investments into this sector continued and, as of 01.07.2007, FDIs made up 214.0 million USD, which was by 10.3% more than on 01.07.2006. About 3.4 thousand km of optical fiber lines of communications were laid down and put into operation throughout nine months of 2007, which was by 25.9% more than over the respective period of the previous year.

At the same time, a systemic analysis of the status and trends of development of transport and communications sector makes it possible to identify a number of problems that impact the status of infrastructure and effectiveness of its role as a foundation for enhancement of competitiveness of Ukraine's national economy, such as:

Physical and moral obsolescence of capital assets and basic facilities of the transport infrastructure,

lack of a comprehensive approach to technological rehabilitation of the industry;

Inflexible tariff policy which does not always take into consideration changes in tariff policy of other countries (Ukraine's potential competitors), which leads to lower competitiveness of transport carriage in Ukraine;

Insufficient financing of motor-road economy and, consequently, low speed of development and unsatisfactory technical condition of motor-road networks;

Physical wear and tear and obsolescence of telephone communication equipment, and insufficient development of primary digital networks;

Changing terms of trade in the international market of transport carriage, which leads to growing demand regarding the speed and quality of transport services and transportation;

Growing international competition for additional transit flows and, consequently, diversion of transit from Ukrainian ports to the ports in other countries, which is based on a clear strategy for development of national transport systems in those countries and on targeted state support as well as attraction of targeted investments of EU countries;

Different rates of changes and integration of national transport systems into an international system of conveyance, such as a faster development of transport infrastructure of Ukraine's competitors;

Slower rates of construction of the Ukrainian part of international transport corridors;

A low level of development of infrastructure on the state borders, a low throughput of border checkpoints, a complicated and long procedure of border-crossing clearance, and a relatively high cost of services provided at border-crossing points.

Infrastructure is therefore confronted with a number of serious challenges. On the top of the agenda are the issues of further reform of the transport industry. There is also an urgent need to attract investments for rehabilitation and renewal of passenger wagons and freight cars, locomotive engines, extension of electric-traction railroads, rehabilitation and renewal of the stock of conveyance in motor, river and sea transport as well as reaching maximum fuel efficiency, securing traffic safety, environmental standards, and comfort of transportation and conveyance.

An important area of investments is adaptation of the industry to the standards and technical, logistical and environmental norms of the European transport system. This requires, among other things, construction of express highways and makeover of main railroad tracks and rail infrastructure, bringing freight and passenger rolling stock into compliance with environmental standards, as well as development of the infrastructure for joining points on Ukraine's western borders for land transport networks.

Priority areas for development and operation of a strong and innovative transport and road system are as follows:

Rehabilitation and renewal of capital assets in the transport area, improvement of quantity and quality parameters of transport networks and means of conveyance, increasing technical, technological, safety and environmental standards in Ukraine's transportation, development of national machine-building industry with a view to meet the needs of Ukraine's carriers in transport vehicles and means;

Enhancing competitiveness of the national transport and road system through support and development of national infrastructure for international transport corridors and the network of transport logistics centers based on transport-and-warehouse facilities, development of concomitant tourist and recreation infrastructure, improvement of information infrastructure and the systems for freight shipment tracking;

Increasing investment attractiveness and mobilization of investment resources into the national and international transport projects that will have to be implemented immediately in order to make Ukraine's transport infrastructure more competitive;

Introduction of cutting-edge technologies aimed at securing competitiveness in the market of trans-

port services, such as creation and establishment of new generation IT systems, raising the speed of movement on the railroad transport, building airports and stepping up domestic air transportation;

Enforcement of measures aimed at raising safety standards and labor protection norms, and improving the environment through introduction of energy efficiency technologies in the transport sector;

Further development and improvement of transport legislation, approximation of Ukraine's transport laws to the EU legislation in this area, harmonization of legal and regulatory base with the relevant international legal norms and WTO requirements.

Construction of IT and telecommunications infrastructure in Ukraine must be considered one of the crucial factors for Ukraine's economic upswing, growth of intellectual and business activity of the society, development of modern information technologies, strengthening of the country's reputation in the international community.

Therefore, the main directions for development of communications sector in Ukraine are as follows:

Decrease disproportions in provision of telecommunication services and address the problem of insufficient access of users to public telecommunication services in rural and mountainous areas as well as in depressed regions;

Identify, at the legislative level, the mechanisms for compensation of losses to of telecommunication operators that they may incur by providing telecommunication services for general public in the rural and mountainous areas and in depressed regions as well as to vulnerable groups of consumers, and that should facilitate the provision of access opportunities to the above-described services for Ukraine's people;

Ensure that unimpeded access to internet is available, and create a ramified network of internet public access centers, especially in rural communities;

Establish a national system of exchange and control centers for IP traffic;

Eliminate barriers for new players seeking entry into the telecommunications market, and exercise control over monopolies and operators with a substantial market share in the sector of telecommunications so that the use of their dominant position aimed at restricting competition could be prevented in a timely fashion;

Replace a big part of morally obsolete and physically worn-out analog equipment in the public telecommunications network by digital equipment; this concerns, in the first place, the network of ground telephone communication lines owned by the open JSC "Ukrtelecom";

Build up a modern telecommunications infrastructure and integrate the telecommunications system of Ukraine into European and world-wide telecommunications systems with account of Ukraine's national interests.

### **2.2.7. Development of small business**

As has been proven by international experience, small business is an important component of mobilizing institutional factors toward the enhanced competitiveness of any national economy. Small businesses perform the following functions:

Speed the restructuring of economy;

Enhance the efficient use of national investment resources;

Expand, diversify and raise elasticity of supply on the domestic market of goods and services, including social services;

Help to eliminate monopolies and establish an effective competitive environment;

Stimulate innovative development;

Revive entrepreneurial initiative in business among the grassroots;

Create additional jobs and increase employment flexibility;

"Decentralize" economic development by improving the use of economic resources in the regions, facilitating economic growth in depressed regions, and raising local budget revenues.

A proper small business development requires combination of tax tools as well as fiscal, price, foreign economic, and social policies with a view to establish a favorable business environment.

As compared with 2005, the number of small businesses in Ukraine grew by 4.2% in 2006. Over the same period the number of people employed in small business declined by 4.8%, or by 88,000 employees. The volume of products (works and services) sold by small business increased by 8.9%.

It should be stressed that Ukraine has come close to the level of small business development in the EU countries by the number of small businesses. In 2006 Ukraine had 47.8 small businesses for every 1000 people, while Britain had 59, Germany - 43, France - 42, Portugal -66, Italy - 72. Positive dynamics of small business development in Ukraine gained a fresh impetus thanks to the introduction of a simplified system of taxation, accounting and reporting for small businesses, a progressive regulatory policy, and a reform of licensing and permit systems in 2005.

However, the size of marginal turnover established in the EU as a criterion for referring an enterprise to the small business category is about twenty times higher than in Ukraine. It should be emphasized that this difference leads to lower competitiveness of Ukraine's small businesses as it reduces the number of entrepreneurial entities that can qualify for state support instruments allowed by the WTO and the EU. The number of small businesses in Ukraine, allegedly on a par with "European" numbers, is determined, in the final analysis, by the contributions made by physical persons engaged in entrepreneurial activities.

The development of small business in Ukraine has a number of inherent structural imbalances. The number of entrepreneurs-physical persons grows much faster than the number of small businesses proper, which points to remaining institutional deficiencies as far as small businesses in Ukraine are concerned.

The growth rate of the number of small businesses slows down steadily against the background of economic upsurge: from 7.2% - 8.6% per annum in 2001 - 2003 down to 3.9% - 4.2% in 2004 - 2006.

The average number of employees per one small business continues to decline (from 9 in 1998 - 1999 down to 6 in 2005 - 2006), though, according to the legislation, the marginal number of employees in such businesses may vary from 15 to 200.

The share of those employed in small businesses considerably exceeds the share of such enterprises in terms of sold products (fig. 2.7), which attests to low productivity of small businesses.

Most small businesses are concentrated in the sector of wholesale and retail trade (table 2.1).

*Table 2.1*

**Small business structure in Ukraine by sectors, %**

Sectors of economy	Number of enterprises		Volume of sales	
	2000	2006	2000	2006
Overall for economy, including:	100,0	100,0	100,0	100,0
Manufacturing	16,9	14,4	29,5	13,6
Construction	9,0	10,2	15,9	11,1
Wholesale and retail trade	49,6	33,5	26,5	41,0
Hotels and restaurants	3,7	3,3	3,3	2,0
Transport	4,2	4,9	7,8	5,1
Real estate transactions	12,9	21,7	14,4	16,0
Collective and individual services	3,6	5,3	2,6	3,1

During the period of economic growth, small businesses in the sector of trade have become stronger in economic terms (their numbers decreased and the volume of their sales increased) while manufacturing industry saw an insignificant decline in the number of small businesses and their share in the volume of sold products shrank by more than a half, which reveals a large degree of fragmentation of small businesses in manufacturing. Similar trends were also observed in other sectors.

Only 5 % - 6 % of small industrial enterprises are dealing with innovations, while this indicator is four times larger among big companies.

The main reasons for structural imbalances in the development of small businesses in Ukraine relate to the following factors that contribute to an unfavorable entrepreneurial environment:

High tax rates and complicated taxation procedures for businesses that are not part of the simplified taxation system;

Excessive regulatory pressure on businesses, cumbersome regulatory norms, and a high level of corruption;

Difficulties in getting access to loans and a high cost of borrowing;

Scarce credit and financial support to small businesses provided by the government;

Limited and scanty information;

Low level of expertise in entrepreneurial activities.

Inadequate state policy of business regulation has a negative impact on Ukraine's image in the world. According to the annual World Bank report for assessment of business environment "Doing business in 2008", Ukraine ranked 139th among 175 countries. In view of its burdensome tax system and procedures for getting permits and licenses Ukraine ranks among the five countries at the back of the list (177th and 174th position respectively). According to the quoted report, 99 types of taxes are collected in Ukraine, and one would have to spend 2085 hours annually in order to complete all the prescribed procedures related to tax payments. Ukraine's entrepreneurs have no choice but pay 60% of the amount of their profits in the form of tax (the world's average rate is only 40 %).

Other serious problems are caused by the low level of investor's protection (Ukraine ranks 141st), a complicated procedure for business closure (140th position), inadequate system for registration of the title of ownership (138th position).

Difficulties in the implementation of deregulation policy and support to small business development stem from a number of systemic factors.

There are conflicting goals at the level of political decision-making due to the contradiction between macroeconomic stabilization (budget consolidation) and deregulation. The lack of systemic effect from the development of small businesses is not conducive to lowering tax burden, and, therefore, the structural imbalances continue to pile up. Very illustrative in this regard are contradictions between the legislation on the simplified tax system and social security legislation.

The rampant corruption in the regulatory field makes deregulation an unprofitable business in the eyes of the bureaucrats since it leads to the loss of bribery sources.

Low professional level of the regulatory agencies and lack of their readiness to work with liberal regulation requires additional effort, expertise and improved instruments.

Lack of substantive interest in business development among leading political and economic groups leads to the practice of lobbying primarily big business interests in the economic policy and, more specifically, the regulatory policy.

Development and consolidation of the national small business cannot be an automatic implication of economic growth. Therefore, it is high time that Ukraine formulated a new national policy for small business that should reflect the new reality and foster a new quality of the sector. This policy must be based on two main components.

Firstly, the current number of small businesses must be preserved without any prejudice to the environment for economic activities. This would require preservation and improvement of the existing rules for simplified taxation, accounting and reporting system for small businesses and improvement of the present level of openness of the government and public consultations.

Secondly, a new quality level of small business development must be secured. This would require systemic socio-economic reforms, namely:

Enhancement of control and responsibility for compliance with legislation in the regulatory field, including such compliance on the part of the state administration;

Simplification of licensing system and bringing to a minimum the types of licensed economic activities;

Improvement of tax system, in particular, by cutting the number of taxes and charges, simplification of procedures for collection of taxes and charges, and a reform of VAT legislation;

Improvement of the system for extending tax benefits to small businesses by eliminating "loopholes" in legislation which lead to abuse of tax incentives;

Development of loan support to small businesses;

Introduction of instruments for support of innovative activities, including venture capital;

Introduction of effective safeguards to guarantee property rights;

Support of horizontal and vertical clusters, and formation of demand in big companies for goods and services offered by small businesses;

Development of infrastructure for providing information and consultations to small businesses;

Diversification of budget expenditures and attraction of small businesses in the implementation of social and other similar functions of the central and local budgets;

Large-scale dissemination of information on the national, municipal and private programs where small business can participate;

Extending loans and insurance services, as well as providing information in support of foreign economic activity of small businesses;

Proper and adequate representation of interests of small businesses in bilateral and multilateral international trade talks and agreements;

Engagement of not-for-profit entrepreneur associations in the development of fundamental principles of the regulatory policy;

Elevating the status of the authorized agency in charge of the state regulatory policy and entrepreneurship.

### **2.2.8. Competitiveness of Ukrainian economy in external markets**

Intensive growth of Ukraine's foreign trade turnover which increased by 32.1% or by 23.9 billion USD during eleven months of 2007<sup>8</sup>, points to the increasing openness of Ukraine's national economy. As was shown above, foreign trade plays a substantive role as a factor of macroeconomic dynamics.

The following trends could be observed in Ukraine's foreign trade after eleven months of 2007:

Positive growth of foreign trade turnover gained a fresh impetus while trade balance deteriorated. Based on the results of eleven months of 2007, the rate of growth of foreign trade balance (goods) exceeded 1.9 times the respective indicator for the previous year (17.2%), which is due to high growth rate of exports (by 27.9%) and, as usual, a leading growth rate of imports (by 34.2%) (fig 2.8).

As a result of a long and substantial prevalence of imports, Ukraine's foreign trade balance deteriorated sharply. In the course of the past two years, the negative balance increased from 1.34 billion USD (eleven months of 2005) up to 5.2 billion USD (eleven months of 2006) and reached an all-

<sup>8</sup> The data provided by the State statistics committee of Ukraine

time high level of 9.6 billion USD during the respective period of 2007.

Raw materials orientation of Ukrainian exports has remained unchanged. Like before, the backbone of exports is made up by raw materials, such as iron and steel products (42.4%), chemical products (10.2%), and minerals (8.9%), their cumulative share amounting to 61.5% (last year it was 64.3%) (fig.2.9). By the degree of industrial treatment of products, the commodity structure of exports and imports remains unbalanced: Ukraine's exports structure consists, almost by 60%, of raw materials for industrial purposes and goods of incomplete production cycle, and only one third of it are products of full production cycle. Ukraine remains a supplier of industrial raw materials and semi-finished goods to the EU countries (over 60% of exports to the EU are goods of intermediate production cycle while ready-made products for final consumption constitute one third of such exports) and Asia (over three quarters of exports there are semi-finished goods and about one third are ready-made products).

Conversely, almost 50% of Ukraine's imports are goods of full production cycle. According to the results of eleven months of 2007, the main commodity groups are mineral products (28.8% against 30.6% in the previous year) and machine-building goods (32.4% against 29.4% in the previous year) (fig.2.10). Nearly 40% of imports of machine-building goods were transport vehicles, in particular cars, while 53.6% accounted for mechanical equipment, which points to a substantial role of imports of this kind of products for meeting both consumer and investment demand. Overall, the imports of machine-building products exceeded the production of respective products in Ukraine by almost 1.2 times.

Imbalances in the structure of imports and exports in terms of added value cause losses of potential productivity of Ukraine's production forces, slow down economic growth and, consequently, add to the formation of negative foreign trade balance in the process of economic development.

The share of CIS countries in terms of exports from Ukraine is growing. According to the outcome of eleven months of 2007, the rate of growth of exports from Ukraine to CIS countries exceeded 3.2 times the growth of exports to the EU countries. Consequently, the CIS share in the structure of Ukraine's exports grew up to 38% (against 32.4% in the previous year (Russian Federation's share - up to 25.9% (against 22.1% in the previous year)) while the share of exports to the EU countries and Asia went down to 28.4% and 20.2% respectively. Changes in the geographical breakdown correlate with changes in the commodity breakdown, i.e. ready-made products make up almost 60% in the exports to the CIS countries, and more than half of those are machine-building products.

Exports of Ukraine's iron and steel industry products are growing. According to the results of eleven months of 2007, exports of iron and steel industry products grew by 26.1% or by 3.9 billion USD as compared with the respective period of 2006. Iron and steel products accounted for 39.9% of exports growth during the said period. Intensification of demand for products of Ukraine's iron and steel industry is the case with all major trading partners of Ukraine. However, it should be noted that positive dynamics is, for the most part, stimulated by the price factor owing to favorable terms of trade in these products at the world market. In terms of physical volumes, the exports of iron and steel products from Ukraine practically did not grow in this period. The engine for the industry's development is stimulated primarily by the improvement of terms of trade in the world market rather than by any structural changes or modernization of the industry. Ukraine's iron and steel industry manufacturers have started paying more attention to the CIS and Asia markets each of which now gets almost one third of such exports.

Positive dynamics of exports of Ukraine's machine-building industry is improving. By the results of eleven months of 2007, exports of Ukraine's machine-building products went up by 57.2% (against 15.8% during the respective period of the previous year). Consequently, the share of machine-building products in the structure of Ukraine's cumulative exports of goods increased from 13.8% in the previous year up to 16.9%. Exports of machine-building products accounted for 28.0% of exports growth over the mentioned period. Such growth became possible owing to a sharp increase of deliveries both to CIS countries and the EU markets. But the CIS countries remain the main consumers of Ukraine's machine-building products (almost three quarters of exports of these products), and about one fifth is the share of the EU countries.

Ukrainian producers of agricultural and food products are also improving their performance in the

foreign markets. After eleven months of 2007, the respective commodity positions accounted for 12.6% of exports of Ukraine's goods and their increase amounted to 30.2% (or 1.3 billion USD). Lifting the ban on imports of some groups of Ukrainian commodities to Russia resulted in a sizable increase of exports of many types of agricultural and food products to Russia. More than a third of products of the mentioned commodity group lands in the CIS markets.

There have been some positive changes in the exports of services. This is an indication of growing competitiveness of Ukraine's service sector in some new and non-conventional areas. Thus, according to the data provided by Ukraine's statistics agency, the overall growth of services exports was 15.8% during nine months of 2007, while transport services grew by 10.7% (their share remains an all time high - 69.4%), financial services - 2.9 times, computer-related services - twofold, services to private individuals and services in the culture and recreation sector - 3.7 times, legal and accounting services - 2.1 times, royalties and licensing fees - by 43.1%, travel services - by 37.2%, miscellaneous and business-related services - by 18.3%, etc. At the same time, exports of pipeline transit services declined by 6.9%, construction services - by 47.2%, communications services - by 42.0%.

There was a large increase of imports of mineral products into Ukraine and a sharp increase of the share of natural gas. According to the results of eleven months of 2007, imports of mineral products into Ukraine grew by 27.4% as compared with the respective period of the previous year and reached the amount of 15.6 billion USD. In price terms the gain made up 3.35 billion USD, which is equivalent to 23.7% of cumulative imports growth over this period. The supply of mineral products into Ukraine is almost completely dependent on CIS countries, which account for 90% of respective deliveries.

High rates of growth of imports of mineral products were mostly due to a dramatic climb of natural gas imports which grew by 35.1% during eleven months of 2007 (against 20.9% over the respective period of 2006). This accounted for 46.4% of the overall gain in imports of mineral products. The share of natural gas in the commodity imports into Ukraine remained at the level of the previous year and made up 11%.

Ukraine is becoming more dependent on technological imports from the EU and the countries of Asia. According to the data provided by Ukraine's customs service, the EU countries accounted for 52.7% of deliveries of machine-building products during eleven months of 2007, which make up the bulk of the EU imports into Ukraine (46.6% against 43.1% in the respective period of 2006). On the other hand, in the recent years there was a clearly marked trend toward an increase of the share of imports of respective products from the countries of Asia. The share of Asian imports of machine-building products into Ukraine already amounts to 22.3% (against 20.8% the year before) which is bigger than the CIS share (20.0%). The imports of machine-building products make up 50.1% in the structure of imports from Asia into Ukraine (against 46.9% in 2006).

Therefore, the enhanced role of foreign trade in the economic growth of Ukraine in 2007 was coupled with a series of imbalances due to delays with institutional and structural reforms and the lack of a consistent policy in respect of inclusion of Ukraine's economy into the international division of labor on a parity basis. Such a policy must proceed from the principles of capitalizing on modern factors of competitiveness. Ukraine's economy became more susceptible to international market fluctuations and the enhanced geographical concentration of major foreign trade flows. The expected accession of Ukraine to the WTO will become an additional factor of increased openness of Ukraine's economy vis-a-vis external factors of its development, an important prerequisite for the establishment of free trade zones with its major trade partners, as well as a big step forward toward accomplishing the tasks of European integration.

One should note a significant role of external factors in the growth of the volume of exports, and they do not depend on Ukraine's economic policy or managerial skills of its economic agents. It is the matter of a favorable foreign market situation (according to the IMF estimates, the average metal prices, in US dollar terms, will grow by 17.9% by the end of the year, food prices - by 8.7%, prices on ready-made products - by 7.9%) and the fall of US dollar exchange rate with respect to major world currencies. Given the peg of the Ukrainian currency to the US dollar, this contributed to a higher competitiveness of a large part of Ukraine's exports in terms of prices.

However, in a short-term perspective one should expect the aggravation of a number of risks as far

as further growth of Ukraine's exports is concerned.

Firstly, the expected slowdown of the world economic development in 2008 (from 5.2% up to 4.8%, according to the IMF estimates) will lead to a decline in demand at the major commodity markets. Therefore, metal prices may fall by 12.0%, food prices - by 1.6%, while prices of ready-made products will continue to grow but much more slowly (2.8%).

Secondly, according to the IMF forecast, it is expected that the oil prices may grow by 9.5%. The inevitably big jump in prices for natural gas imported into Ukraine should also be added to this. Given that chemical industry and, to a certain extent, iron and steel industry are extremely sensitive to the natural gas prices, such a course of events may significantly slow down the dynamics of Ukraine's exports.

Thirdly, a presumably possible review by the National Bank of Ukraine of the fundamentals of the exchange rate policy (transition from the US dollar peg to inflation targeting) may trigger the trend toward the hryvnia appreciation and that will cause the decline of exports and the growth of imports.

Fourthly, Ukraine's accession to the WTO in 2008 with all its commitments regarding trade liberalization will cause the threat of asymmetrical terms of trade which is not going to be to the advantage of Ukraine.

Therefore, in the context of expected aggravation of trends of global instability, such as growing prices on agricultural produce, significant fluctuations of US dollar exchange rate as well as similar fluctuations of other world currencies, unfavorable dynamics of trade conditions, and a stronger pressure on the major markets for Ukraine's exports due to competition, there are growing risks of destabilizing impact on Ukraine's economy coming from external factors. The low competitiveness of Ukraine's manufacturers and producers on both foreign and domestic markets will become a more pronounced problem, and added to that are serious risks of "imports" of inflation into Ukraine from the rest of the world, and a fast outflow of goods that are strategically crucial for Ukraine's domestic market, etc.

In view of the described trends, Ukraine faces the need to streamline the tasks and priorities of its foreign economic policy to foster advanced development of competitiveness factors which will promote positive changes related to Ukraine's specialization in the international division of labor.

a) To sustain its export buoyancy and facilitate the improvements in the structure of its exports Ukraine must do the following:

In order to resolve, albeit partly, the problem of negative balance in Ukraine's foreign trade, a set of instruments must be elaborated to support export-oriented industries and improve the structure of exports toward increasing the share of goods with a high degree of added value. This could be facilitated through:

Intensifying the dialog between Ukraine and the EU as regards drafting the Free Trade Area Agreement with the underlying concept of a stage-by-stage implementation of economic mechanisms for a free trade regime and a selective approach to building up external trade relations based on specific industries or groups of commodities;

Concluding agreements with the EU countries with regard to liberalization of non-tariff methods of regulation, reciprocal recognition of technological standards by Ukraine and the EU, and recognition of Ukraine's national works on standards and certifications by the relevant EU authorities;

Establishing a free trade area within the framework of the Single Economic Space in line with comprehensive WTO principles and immediate establishment of an intergovernmental institution for resolution of trade disputes;

Making a bigger emphasis on the economic dimension of the current inter-state regional groups of countries where Ukraine is a member, such as Commonwealth of Independent States, Black Sea Economic Cooperation Organization, and GUAM (Georgia, Ukraine, Azerbaijan, Moldova);

Conducting negotiations and concluding bilateral intergovernmental agreements on simplification of customs procedures and intensification of counter-measures against smuggling in relations with

Ukraine's major trading partners;

Introducing exports credits and exports insurance mechanisms and establishing a specialized financial institution for this purpose;

Simplifying the mechanisms for VAT reimbursement to exporters and enhancing their transparency, introducing the methodology for expeditious identification of fraudulent requests for VAT recovery;

Enhancing financial control in the area of export and import price formation, and in particular, financial monitoring of foreign trade operations with signs of potential abuse and fictitious character, and expand the application of indicative minimal prices on imported and exported goods;

Providing a systemic support to Ukraine's exporters in foreign commodity markets with the help of economic diplomacy, and facilitating, at the highest political level, the implementation of strategically critical export contracts and reacting immediately to trade disputes with the view of their earliest settlement;

Promoting cross-border cooperation on the western as well as northern and eastern borders, granting more authority to local administrations in that regard, and widely engaging small and medium businesses to foreign economic activities;

Drafting a program of Ukraine's international cooperation in the leading areas of scientific and technological development as well as participation of Ukraine's economic agents in the international scientific and technological cooperation.

b) In order to increase protection of the domestic market it is necessary to:

Regulate the size of foreign trade balance and make sure that Ukraine's national economy adequately reacts to increased consumer and investment demand, which would require a well thought-out policy aimed at protection of domestic market and replacing imports through the following steps:

Elaboration and implementation of a strategic program to employ the WTO-instituted instruments for protection of interests of Ukraine's manufacturers in foreign and domestic markets;

Elaboration of methodology for employment of non-tariff regulation methods which would not go contrary to the WTO standards, including control over the quality, safety and compliance of imported goods with phyto-sanitary and veterinary norms and standards, etc.;

Improvement of methods of customs control, in particular concerning adequate assessment of the customs value of goods to prevent explicit and disguised contraband and entry of goods which are hazardous for human health and environment;

Organization of efficient exchange of information and cooperation between special agencies to prevent unfair competition in the markets of Ukraine and its trading partners;

Drafting and implementation of the national program to counter contraband that would raise effectiveness of the fight against corruption and abuse within customs offices.

## **2.3. PRIORITIES IN BUILDING UP THE WELFARE STATE ECONOMY**

### **2.3.1. From a cheap labor policy to the high-value labor**

The current stage of development has dramatically changed perceptions with regard to the driving forces and proportions between different factors of growth as well as the role and place of the individual in the human development process. The experience of industrial nations and especially that of "big leap" economies, such as Japan, Korea, Germany, Ireland, Czech Republic, Slovenia in different periods of the 20th century shows a decisive role of human capital, quality of labor and motivation aimed at high labor efficiency. It is the human capital that secures the highest rates of economic growth, and the countries that are strongly oriented toward developing human potential have achieved the greatest success at the turn of the millennia.

According to the estimates made by the World Economic Forum experts, as far back as in 1992 the competitive advantages of economically advanced countries depended on such traditional indicators

as the size of GDP, inflation rate, the status of trade balance by 15% only; the remaining 85% were the share of the so-called "soft" factors of competitiveness related to the human factor, such as motivation to work, educational level, professional expertise of employees, etc.

The need for quick economic growth in the context of population decline requires the improvement of conditions and enhancement of incentives for the formation of labor potential and its best and effective use. The main directions of the policy aimed at attainment of this goal are expansion of boundaries for economic activities and creation of the environment which would be conducive to the engagement of the maximum number of people in economic activities, providing worthy conditions for work, facilitation of good education and high expert qualifications, and good health services for the nation. A direct tool for pursuing such policy is the transition to a model of development that would rest on a high quality of labor rather than on its low cost.

Regrettably, the model of socio-economic development of Ukraine continues to rest on the low cost of raw materials, commodities, technologies and labor. Consequently, the social structure in Ukraine is radically different from that in the EU. Instead of the prevailing middle class and little difference in living standards with the EU countries, what we have in Ukraine is a polarized society with a very large share of impoverished population.

According to some preliminary estimates, in 2007 the average wages in Ukraine reached, in real terms, about 70% of the wage level of 1990. However, in spite of a substantial growth of the average wages in nominal terms, the gap between Ukraine and most European nations remains. As compared with 2004, the difference in average wages between Ukraine and the Czech Republic increased by 73 euros, between Ukraine and Poland - by 61 euros and between Ukraine and the Russian Federation - by 52 euros.

A mechanical rise of minimum wages over the period of 2005 - 2007 is not due to the growth of labor productivity. It failed to address some systemic contradictions in labor remuneration and did not instigate employers to throw light on the income of their employees. This can be proven, in particular, by the fact that, as of September 2007, 6.3% of hired workers had payroll salaries equivalent to the legal minimum wage (440 UAH). The biggest share of employees with wages below the minimum threshold can be found in the fisheries sector - 16.9%, agriculture - 15.6% and in the communal services and culture sector - 8%.

The economically unjustified differentiation in labor remuneration between different sectors and industries has become a common phenomenon. In some sectors employees are paid 2 - 2.5 times less than on the average in the country, and the budget-spending institutions and agricultural sector pay the least. Thus, in September 2007, 25.5% of teachers and 26.6% of health care workers were paid salaries below the legislated subsistence level for an able-bodied individual (561 UAH). This data points to a significant fall as compared with the year of 2006 when those figures were 21.0% and 21.9% respectively. Labor remuneration in the industrial sector also remains unsatisfactory. The employees of most research-intensive branches such as manufacturing of machine-building, or manufacturing of electric, electronic and optical equipment, which provide new technologies and equipment to the other sectors of economy have lower wages than those who use such technologies and equipment. The difference between the highest and the lowest average wages in the industrial sector was 2.5 times in November 2007: 2284 UAH was the average wage in coke production and oil refinery business while in the textile industry it was 911 UAH.

The highest wages are in the fuel and energy sector, iron and steel industry, coal-mining industry, financial sector, lending and insurance institutions, retail trade and real estate business. The average wages in these sectors and industries are 2.5 times higher than in the rest of the country. Some low-paying sectors are characterized by a high degree of wage differentiation. In agriculture the wage differentiation factor was 32, and the one in culture and arts - 29 times.

A natural implication of a high wage differentiation between different industries is that it brings about excessive regional differences in terms of work remuneration. This is especially true of Donetsk, Dnipropetrovsk, Zaporizhyya, Mykolayiv and Luhansk regions which have in their economic structure a high concentration of companies that manufacture products for exports. This is also characteristic of big cities with a well-developed secondary tier of economy and the highest percentage of employees whose wages range from 2000 up to 5000 hryvnias and more. On the other hand,

Ternopil, Volyn, Kherson and Chernivtsi regions have the highest percentage of employees with wages below 400 hryvnias. As compared with the previous year, the regional difference between the average maximum and the average minimum wages in 2007 increased and made up 2.41 times (in 2006 this difference was 2.38 times). The lowest wages in November 2007 were recorded in the region of Ternopil (71.9% of the national average), Volyn (75.7% of the national average), Chernihiv (76.0%) and Zhytomyr (76.6%).

The Ukrainian economy gains its competitive advantage on the basis of cheap labor, thus proving its inadequacy in the light of current and strategic tasks of the country's socio-economic development and the challenges of globalization.

The economy continues to count on cheap labor, with the following consequences:

a full-value reproduction of labor resources becomes impossible;

Employers have no motivation to introduce new technologies and save on human labor, for which reason the share of unqualified laborers is much too high;

Employees are not encouraged to do their work in an efficient manner, and though many companies are growing in a fairly dynamic way they suffer from the shortage of skilled labor (this is true both at the level of engineers and technicians and at the level of skilled workers).

The most active and qualified groups of people go to work abroad, and the budget funds spent on their training are not put to good use in their own country; instead Ukraine's workforce is employed elsewhere and adds value to other economies.

Ukraine's economy has a number of vacancies that are not in demand; a large part of the population requires government assistance, which increases the volume of social transfers for no good reason.

Proper development of social security system is out of the question (this is true of both state and private social security institutions), which constrains investment potential of the country and does not stimulate the development of proper financial instruments.

The policy of raising people's income must become an integral part of market transformations. The reform of wages, the main component of people's income (it makes up 42.7% of the structure of income), must be based on a transition to identifying the real value of workforce in terms of the cost of resources needed for an all-out reproduction of the working individual and members of his or her family.

Introduction of the economic model with expensive workforce in Ukraine must be based on compliance with principles of social equity (proper remuneration for the accomplished work), establishment of European-style social structure (with a low rate of poverty and property differentiation, and prevalence of middle class), building a full-scale social security system (which would keep off poverty once an insurance event has occurred), providing a proper motivation for proactive behavior in the labor market (in particular, by getting a high level of education and professional skills, staying healthy, continuing employment upon reaching the retirement age), and countering large-scale labor and workforce emigration.

Due to practical reasons it is impossible to decrease the volume of social obligations, which makes it necessary to maximize official wages as fast as possible since this is the only way to provide financial capacity to the social security system, primarily pensions, and to create motivation for the people to be proactive in the labor market as well as to counteract a large-scale outflow of the most active part of population abroad.

Special attention should be given to the people working in the informal sectors of economy whose numbers in the first half of 2007 made up 4.6 million, or 22.2% of the overall number of the employed (those from 17 till 70 years of age). Over 70% of them were engaged in agriculture. At the end of 2006, the revenues from their private household farms made up 14.9% of cash income and 25.9% of cumulative resources of all rural households. Structural changes in agricultural production and in respective price ratios will lead to the reduction of this source of financial revenues of

rural residents.

Gradual reform of the income raising policy envisages the following:

In a short-term perspective: prevent the decline of real wages and living standards in the inflationary environment;

In a medium- and long-term perspective: eliminate excessive imbalances in wages between industries and regions, carry out a transition to a steady rise of wages and people's income based on raised labor productivity and efficient use of labor resources.

In order to reach these goals, the following tasks will have to be accomplished:

Gradually increase the share of wages in the structure of production cost.

Develop practical mechanisms for indexation of wages and salaries in order to offset negative social impact of inflation and prevent the decline of purchasing power. Indexation must be differentiated and contingent on the income level. It must be more oriented toward the people with a low income level and be one of the means of reducing differentiation in labor remuneration. An appropriate indexation methodology will make it possible to lower the social "price" of adjustment inflation up to 10 - 12% a year.

Review the philosophy of establishing the subsistence level as a basic social standard to ensure that this standard conforms to the real cost of the consumption basket and services; review a range of goods and services to bring them in compliance with real life needs of the individual as well as with medical, social and cultural standards.

Move away from fixed minimum wages toward enforcement of a social standard linked to adequate reproduction of employees; the standard must take into consideration the need to provide for dependents in the family, expenses related to payment of the income tax, purchase or lease of housing, paid health care services, education, child care, etc.

Measures will have to be elaborated in order to encourage business community to raise the level of labor remuneration in companies and enterprises and create new and better-paying jobs. The encouragement may have the form of tax credits to companies, equivalent to the amount of funds required for creation of new jobs or raising productivity of the available ones. The described process will also make it possible to reduce the need in budget funding for subsidizing the Pension Fund, or partial reimbursement of the utilities bill, or other social outlays.

Improvement of the policy to regulate employment and income in the informal part of agricultural sector will, in particular, require the development of network arrangements for purchasing agricultural produce, private farmer markets, credit, information and legal aid to agricultural farms.

Launching reform of the labor remuneration system, which would require the following:

Immediately introduce a full-scale unified tariff matrix for labor remuneration in the budget-spending area;

Make sure that the government delegation takes a tough stand at the talks on tariff agreements;

Raise a minimum wage up to the subsistence level for able-bodied people.

Reform the labor market to improve its flexibility and ability to adapt to labor demand, primarily through the following steps:

Improvement of the system of vocational training/retraining;

Raising mobility of workforce;

Improvement of market information support;

Development of mechanisms for social protection of employees, including those who work abroad;

Formation of mechanisms for legalization of those who work in shadow economy;

Introduction of measures to minimize negative implications of labor migration.

State employment service should pay more attention to professional orientation of schoolchildren (and their parents) with regard to specific features of labor markets in specific regions and help find the optimal vacancies for their first jobs or specialized training in technical colleges and higher educational establishments.

Changes in the current system of individual taxation to set margins for social differences and disparity of income would require introduction of progressive taxation scale with rates dependent on the size of subsistence minimum for able-bodied individuals.

### **2.3.2. Status of pension system and steps toward its reform**

An integral part of laying a reliable foundation for economic development of Ukraine in terms of strengthening its human and social capital is a consistent reform of the pension system.

It is evident that the current pension system is inadequate as it is based on a purely fiscal redistribution of resources and, in fact, withdraws them from the investment turnover. As proven by international experience, only a flexible and diversified pension system combining different methods and sources of financing is able to provide dignified living standards for people in retirement. The most effective is the system consisting of 5 levels. The social pension is the zero level whereby minimal pension support is guaranteed to all citizens upon reaching a certain age (normally, 5-7 years later than the legally-established age for retirement) irrespective of whether such a person has a history of social security contributions. At the first level is the pension from the so-called solidarity fund paid to all persons who reached the retirement age, providing that they have a required length of social security history, and according to the amount of social security contributions paid in throughout their working lives. Level two is the pension based on the comprehensive mandatory accumulation system, which is paid to individuals upon their reaching of retirement age from the accumulated in its time investments made in the form of paid-in contributions throughout individual working lives. At the third level is a pension derived from the additional accumulation system that employees and their employers pay contributions to on a voluntary basis. There is also an informal level where support to the elderly is provided by their families and/or local communities.

According to the concept of Ukraine's pension reform spelled out in the laws "On the State Compulsory Pension Security System" and "On Non-state Pension Support" adopted as far back as 2003, it is planned to establish the zero level (social pensions funded from the state budget), keep the first solidarity level (labor pensions funded with the contributions of those who work), introduce a second and a third accumulation levels, and develop a system of social support to the elderly at the local level. Regrettably, provisions of these laws are not implemented in real life.

Firstly, about 85% of pensioners receive special additional payments from the Pension Fund of Ukraine with which their established pensions can reach the subsistence level for retired individuals. Such a massive spread of subsidies goes contrary to social security principles that must be applied when fixing work pensions. It is therefore imperative to change the mechanism of fixing pensions with a view to minimize the subsidy component.

Secondly, due to a sharp growth of real wages the gap between pensions received by different generations is getting wider. Thus, the average basic size of a pension fixed for men of 60 - 64 years of age is 353.5 UAH, for those at the age of 65 - 69 - 306.77 UAH, for 70 - 79 years of age - 256.34 UAH and for the 80-year olds and above - 206.5 UAH. The difference is compensated primarily through raising pension allowances to the subsistence level. For every year above the regulated length of service a man at the age of 60 - 64 years of age is paid additionally 3.5 UAH and the one at the age of 80 and above - 2.1 UAH. Therefore, the pensions<sup>9</sup> fixed in 2006 for men at the age of 80 and above (including indexation) exceed the average amount of pensions of this age group by 159 UAH, i.e. by 27%. Further increase of labor remuneration is likely to preserve the same trend.

Thirdly, there is no proper protection of the earlier fixed pensions against depreciation. Although the Law of Ukraine "On the State Compulsory Pension Security System" envisaged their systemic indexa-

<sup>9</sup> Taking into account targeted cash assistance, monthly targeted state aid, extra benefits for outstanding services to Ukraine and indexation

tion, the indexation practically does not have any effect after the minimum size of the pension has been raised to the subsistence level due to the small share of the raise within the pension structure. The previously fixed pensions will only continue to increase in line with the inflation rate, and their connection to the current level of labor remuneration is gradually lost. Therefore, there is a real danger of a new wave of impoverishment among pensioners.

Fourthly, the growth rates of the Pension Fund's resources are lagging behind the growth rates for nominal wages. Thus, the revenues to the Pension Fund rose by 27.1% in 2006, while wages grew by 29.2%, in spite of the fact that the rate of employers' contributions had been increased from 31.8% to 33.8%. This is the implication of insufficient input of the working population into the pension security system. Only about 75% of the overall numbers of the employed are paying pension contributions, and almost one third of the payroll is hidden from the accrual base. The attempts to encourage the extension of the length of service by introducing additional job seniority factors are of no avail.

It should be stressed that it is absolutely impossible to secure the necessary differentiation of pensions based on the "solidarity" system since all the contributions from those employed are consolidated and then distributed among the available pensioners with inevitable averaging of indicators both in time (throughout a year and throughout all the labor period) and in space (based on the aggregate numbers of those employed and pensioners).

The "solidarity" system aims to prevent poverty, as the intent of the accumulation system is to make sure that the level of revenues is acceptable. The accumulative compulsory pension security system still has to be introduced in Ukraine (the deadline for its launch was put back to early 2009) while the voluntary pension security system is not yet widespread, mostly because of the low level of labor remuneration.

The least transparent and workable are the provisions of the Law "On the State Compulsory Pension Security System" concerning a simultaneous raise of wages and channeling part of contributions to the Accumulation Fund. On the one hand, since not all employees will be in a position to participate in the accumulation system due to regulated age constraints, the raise of salaries will only cover junior employees and such inequity will be hard to accept for older people. On the other hand, there are no such instruments that would obligate employers to raise wages and salaries in conformity with redistribution of duties between employers and employees concerning payment of their contributions.

A stipulation concerning the balanced state of the budget in the "solidarity" part of the Pension Fund needs to be reviewed. Firstly, even if the "solidarity" part is deficit-free, removing part of the contributions to the accumulation fund will almost inevitably lead to distortion of the balance. Secondly, attempts to secure a considerable surplus of the "solidarity" part will inevitably provoke its logical channeling to raising pensions. Thirdly, the state budget potential is big enough for the Pension Fund to recover not only expenses of the transition period due to the need of full-scale pensions financing while part of contributions is channeled to the Accumulation Fund, but also to bridge the emerging deficit.

A very serious problem is the existence of too many professional pensions. Presently Ukraine's legislation links such pensions to an early retirement age for those employed in a hazardous and noxious work environment. However, such practice goes contrary to modern global trends based on prevention of harm to the health of workers rather than compensation for the damage done.

In view of that, the immediate steps to improve pension security system in Ukraine and carry out a pension reform should be as follows:

Improve the "solidarity" pension-security system (1st level), including the re-establishment of differentiation of pension sizes depending on paid-in contributions, a complete separation of financing sources for different pension plans, and introduction of the unified social contribution;

Introduce the accumulation fund for the mandatory pension security system (2nd level);

Make sure that the non-state pension security system (3rd level) works in a sustainable way;

Review the stipulation concerning the balanced state of the budget in the solidarity part of the

Pension Fund and channel the resources from the state budget to bridge the current deficit of the Pension fund and compensate the losses of the transition period caused by diversion of some contributions to the Accumulation fund;

Conduct a new indexation of wages and salaries earned prior to the year of 2004;

Systematize conditionality rules concerning early retirement (professional pensions), and channel the released funds to prevent health damage to those employees who work in hazardous and noxious work environment;

Raise the established norms for the socially-secured job seniority and stipulate that the qualifying age for a retirement pension is 30 years for women and 35 years for men, which is logical given the actual length of service - from the age of 18 and up to 60 and 65 years of age respectively;

Introduce an additional pay of 5% of the basic pension size for each year of service above the established norm, which would contribute to the enhancement of social security for the retired and eliminate the leveling system in the pension security increasing revenues to the Pension Fund.

### **2.3.3. Implementation of the state social policy and its challenges**

The importance of social focus of Ukraine's economic development must find its embodiment in a consistent social policy of the state. However, it's not infrequent that the declared political guidelines fail to materialize in Ukraine. According to the study made by the "The Economist" magazine, Ukraine now ranks 98th out of 111 countries surveyed in terms of quality of life. According to the UNDP, in 2007 Ukraine ranked 76th out of 177 countries by human development index and in this respect it belonged to the group of countries with the medium level of development.

Over the recent years, Ukraine has opted for the policy of support to the poorest, needy, vulnerable and incapacitated groups of its population as a higher priority in its social policy. This challenge was addressed without a consolidated national strategy in the area of social policies which could bring harmony between different social groups and build up the national social capital. This resulted in tapering of the state social functions and a dramatic decline of effectiveness of social policy in general terms and social expenditures, in particular. The evolution of the social security system during the period of 2004 - 2005 led to the enhancement of the 'dependency' attitude among the wide strata of the population and disintegration of social security principles, it provoked income 'leveling' for the majority of non-working people and caused an excessive social pressure on the budget.

The trend of increasing social welfare and social security expenditures continued to grow in 2007. The planned expenditures for social protection made up 21% (against 16% in 2006) in the 2007 state budget, education - 7% (against 9% in 2006), health care - 4% (against 3% in 2006). However, no substantive results in social welfare materialized. In fact, a mechanical increase of budget resources substituted the would-be changes in organization and techniques of addressing social needs that could have raised the efficiency of social expenditures. Ukraine lacks a scientific methodology to conduct substantiated monitoring and systemic assessment of "value for money" approach regarding social expenditures.

Instead of developing new principles of social policy, the government kept increasing the number of social aid and benefit programs with a very low level of targeting and unrealistic from the budget perspective. Presently the state has obligations concerning 156 kinds of social benefits, guarantees, and compensations with respect to 230 categories of its population; 46 laws regulate the administration of the benefits. Benefits to people in accordance with their social categories are granted on the basis of 24 pieces of legislation according to which 15 million people qualify for benefits, i.e. nearly one third of Ukraine's population. Different estimates suggest that the total cost of all declared benefits ranges between 19 and 29 billion hryvnias per annum, which is several times more than the appropriated budget expenditures for funding such programs.

Due to the lack of real reforms in social sector the latter looks rather like a rudiment of the Communist system with its high degree of state paternalism, widespread "dependency" attitude deeply ingrained in many people, financial groundlessness of a number of obligations, and a very inefficient system of administration. There are extensive distortions in the structure and distribution of income, and in getting access to basic social services for most people.

The need to secure a long-term competitiveness of Ukraine in the global environment requires that a focus be placed on investments into human capital, development of social infrastructure, and raising life standards for the majority of the population (and not just for the poor and the needy). The social focus of the budget therefore means that its allocations should be directed primarily to human development, securing access to a quality education irrespective of one's place of residence and/or property status, establishment of an effective health care system, promotion of healthy lifestyle, development of labor market and securing proper work conditions. In its turn, raising personal income through massive employment will reduce the number of people in need of social assistance, on the one hand, and will provide the necessary funds for the needy people, on the other hand, thus creating favorable conditions for a reform of the social sector.

Implementation of this kind of strategy can turn the social policy into the main factor of socio-economic development for different regions and for the society at large. It will be possible to adopt a comprehensive approach in addressing the main reasons for low living standards of Ukraine's population, and will turn social policy into an integral and effective tool of the national consolidation strategy.

When identifying the goals of social policy it is necessary to take into account resource limitations as well as institutional constraints in the present-day Ukrainian society. The initial background against which the state social policy will have to be optimized has the following profile:

The population has traditionally high expectations regarding state social support, and a large share of the population are the recipients of social transfers due to the age profile of Ukraine's population and low margins for retirement age;

There is a need to avert social conflicts;

It is impossible to carry out radical changes in the distribution of property and income as the market economy and the new institutional system have already been introduced;

Political institutions are far from perfect, and the efficient system of state power and democratic civil society is too slow in the making;

Local communities are weak, though they have received powers to carry out the key social obligations of the state;

The share of privatized vital infrastructure, such as housing and utilities, is much too big while the technological level of the facilities leaves much to be desired and privatization is still under way;

Consequently, strategic objectives of Ukraine's social policy must include:

Gradual reduction of the share of direct state financing of social needs and raising the share of financing on the part of the population based on the growing income of all kinds, including wages and salaries, pensions, and alternative kinds of social transfers.

The reform of social assistance system must envisage the following:

Providing all kinds of social assistance (including social pensions) on a targeted basis and with account of the family's cumulative income;

Introduction of unified targeted social assistance to cover unpredictable emergencies, such as death of a family member, serious illness, natural disaster, social unrest, etc.;

Increasing the size of cash benefits to follow birth of a second child and each next child from 8500 UAH up to 15000 UAH and providing such benefits on a universal basis but with income-related limitations for the eligible to such assistance, which would exclude about 3% - 5% of well-to-do families from access to the benefit system;

Simplification and unification of mechanisms for receiving targeted social assistance along with introduction of effective instruments for identifying real income of applicants for the assistance;

Gradual transition from assistance to the low-income people and subsidized housing and utilities bills and the cost of fuel to the unified system of targeted social assistance;

Raising scholarships for orphaned university and technical college students up to the double subsistence minimum level;

Raising twofold the level of cash allowances to the conscripted military personnel;

Increasing the level of state assistance to families with children by 50% of the subsistence level with account of the family income and additional benefits, such as:

Providing social housing on a priority basis to families and single parents with five or more children and in case of birth of three or more babies at once;

Securing preferential conditions for children from families with five or more children for admission to state educational establishments of all levels and waiving tuition charges;

Increasing the extra allowance to be added to regular pensions (from 20% -25% up to 30% - 35% of the fixed basic pension) for mothers of five and more children who provided care to such children for at least first 6 years of their lives;

Stage-by-stage formation of a full-scale social security system would envisage the following:

Introduce the unified contribution to the general compulsory social security system; bring together into one single fund the security funds for temporary disability and against accidents at workplace as well as the health insurance fund, once it has been established;

Condition the size of security premiums by the amount of paid-in contributions;

Create a unified database to monitor security contributions and payments;

Ensure that contributions are made into the general compulsory social security system for all the secured persons (in case employers and/or employees are waived from contributions, they must be paid from the budget);

Make payments from the security funds only for insurance cases (assistance for providing care to a child, aid for funerals, etc. must be financed by the budget);

Conduct a stage-by-stage introduction of health insurance system (starting from medical emergency assistance) providing that this process is aligned with the general reform of health care system, and institutional support for the establishment of health insurance fund is available;

Reform of the social benefits system should include the following:

Transition from provision of benefits based on categories of recipients to the targeted assistance principle, and establishment of mechanisms for providing targeted assistance to specific individuals;

Application of the marginal per capita income principle to enhance the targeted approach to providing benefits and avoid abuse when establishing qualifying criteria for provision of benefits;

Establishment of an integrated database on the people entitled to benefits and the cost of services that should be provided to them, introduction of a register of provided social benefits in line with the unified register of benefit recipients in the country;

Securing a tight link between various social benefits and the sources and mechanisms for recovery of their cost by service providers;

Introduction of a unified approach to identifying the size of budget expenditures required for reimbursement of the costs incurred by service providers;

Stage-by-stage introduction of the cash benefit system (by agreement of the eligible recipients at the initial stage);

Transition to the principle of providing benefits in compensation for health damage in the form and in the amount commensurable with the scale and kind of inflicted damage;

Development of the system of social services and social infrastructure with the following priorities:

Introduction of social passports for families and individuals requiring social services;

Creation of mechanisms for multi-channel funding of the social services;

Creation of mechanisms for engagement of non-governmental organizations and private sector to provision of social services;

Re-establishment, with different quality principles, of pre-school facilities for children with a view to secure their proper development and to create adequate conditions so mothers do not have to interrupt their professional activities for an extended period of time;

Transformation of the network of educational establishments and children's facilities to secure access to quality education for all children irrespective of their place of residence;

Establishing a 20% addition to basic salaries for professionals in the field of education, culture, health care and social services residing in rural areas;

Re-establishing a system of facilities for emergency and primary medical assistance in each community, providing ambulances, basic medical equipment, and medicines to medical doctor's assistants and obstetricians and to outpatient clinics in rural communities;

Introduction of a system of measures aimed at prevention of disease and early death in a variety of ways, such as encouraging healthy lifestyle and lowering the incidence of industrial and domestic accidents;

Adjusting social infrastructure to meet the needs of people with disabilities;

Giving more powers to local governments (within the limits of specified standards) to secure their access to lending; introducing changes in the intra-budget relationships and delineation of powers between central and local governments.

Prevention of further social polarization with a set of instruments aimed at re-distribution of income through the fiscal and transfer system, in particular, by re-introducing, on a new base of principles, progressive income tax, real estate tax, and using best international practices regarding luxury tax, etc.

Improvement of organization and management of housing and utilities economy, primarily through price formation, by means of:

Successive de-monopolization of the housing and utilities sector, and creating competitive environment and market conditions for provision of services, restructuring of companies and organizations in the sector, attraction of private companies to providing housing services;

Formation of scientific and economically justified mechanisms for setting tariffs on housing and utilities services provided by natural monopolies, identifying economic incentives for energy saving, and engagement of independent regulatory agencies in developing tariff-setting regulations concerning utilities;

Enhancement of responsibility of the local authorities for the housing and utilities situation by raising their financial independence and diversification of sources of financing;

Gradual transition to direct contractual relations between consumers and suppliers of municipal services;

Continuous functioning of the system for provision of housing subsidies with a view to minimize losses in the housing and utilities sector due to low solvency of consumers in the context of rising tariffs;

A consistent pursuance of an effective energy-saving policy aimed at lowering expenses and avoiding losses of energy in the housing and utilities sector.

Introduction of effective mechanisms for construction of affordable housing and providing sufficient housing for the population, which requires, among other things, the following:

Envisage in the draft state budget of Ukraine for 2009 and the years to come appropriations for

construction of affordable housing in the amount of at least 0.5% of GDP;

Develop mortgage lending mechanisms for financing of affordable housing;

Elaborate and adopt the law on the construction of affordable housing in Ukraine;

Improve and simplify procedures for issuing housing construction permits in the urban areas; improve the procedures for public discussion of town-planning documentation.

Creation in Ukraine of unimpeded access environment for people with disabilities requires the following steps:

Improve legislation to create the unimpeded access environment for people with disabilities, provide public transport services for the disabled, and develop appropriate conditions for adequate functioning of institutions in charge of social services;

Enforce Presidential decrees on creation of the unimpeded access environment for people with disabilities concerning access to public administration buildings, social infrastructure facilities of local social security agencies, and Pension Fund offices;

Impose tight control so the needs of people with disabilities are taken into consideration when building and renovating structures and facilities for cultural and health care institutions, educational establishments, housing and civic facilities;

Ensure that the national report on the status and conditions of people with disabilities is prepared with the participation of the National Invalids Association and all other national civic organizations with similar responsibilities;

Speed up the process of signing the Convention on the rights of the disabled and the Optional Protocol to the convention, and promote the implementation of all internal non-governmental procedures to secure consent for Ukraine's binding obligations;

Establish civic organizations of the disabled affiliated to the institutions of executive power.

The rationale behind the process of social reforms in Ukraine requires a profound change in the attitude of the state, society and business community to the problems of the country's social development. A big "demand" in society for a vigorous social policy makes it an imperative necessity for the government to accomplish a number of crucial tasks to reach the targets of social welfare and development. It is therefore all the more important to build an optimal social policy model in the context of present-day realities of market economy. In accomplishing this task one of the major challenges is to activate Ukraine's labor potential and provide, at the same time, proper living standards for the broad masses of the country's population.

Ukraine:  
**processes, results,**  
prospects.

Ukraine:  
processes, results,

**prospects.**

**REGIONAL AND LOCAL DEVELOPMENT**

Ukraine: processes, results,  
**prospects.**

Introduction of the political reform in Ukraine has dramatically changed the administration system for regional and local development, delineation of authority, and responsibilities for territorial development. Ukraine has a real chance to work out today a completely new algorithm to manage territorial development. This would require increasing, in the first place, the effectiveness of management mechanisms based on strategic planning and programming. Clear landmarks have to be identified regarding the depth of decentralization which is crucial both for organizing an efficient system of territorial administration in Ukraine and providing national security.

### **3.1. MANAGING TERRITORIAL DEVELOPMENT**

In 2006 and 2007 Ukraine worked actively to improve the institutional and legal framework of its regional policy, however it has not developed yet a comprehensive system for implementation of the national regional policy or an effective mechanism that regulated relations between the center and the regions, and between the regions themselves. The legal framework in the field of regional development administration lacks system as the decisions regulating regional development have depended, for many years, on various subjective factors and political processes that did not always correspond to the official priorities and objectives of the regional policy.

The National strategy of regional development for the period till 2015 was adopted with a resolution of the Cabinet of Ministers of Ukraine on July 21, 2006. The document ushered in an extremely important stage in the reform of organizational and legal framework for the national policy of regional development regulation. The approval of the strategy demonstrated general understanding of the fact that uneven regional development and living standards of the population created the ground for social tension, restricted social and economic development, and threatened territorial integrity of the country.

One of the key tasks for Ukraine's regional policy is to stimulate regional development. This should reduce regional differentiation of social and economic development and living standards in the regions, step up investment activity, promote effective use of the national budget and local resources, enhance competitiveness of the regional economy, coordinate the priorities of the regional economic development with the national priorities, support interregional integration and cooperation, and facilitate solution of interregional problems.

The first on Regional Development Agreement for Donetsk Oblast was signed on September 15, 2007 by the Cabinet of Ministers and Donetsk Regional Council. The protocols about concluding similar agreements have been signed by the heads of Dnipropetrovsk, Lviv, and Kharkiv Oblasts. Kirovohrad, Zhytomir, Chernihiv, and Khmelnytskyi Regional Councils have also addressed the Ministry of Economy with requests to initiate agreements on regional development. The introduction of this instrument to stimulate regional development can become a reality in 2008.

Therefore, the basic legal framework has been generally elaborated to provide essential incentives for regional development, though a number of practical elements are yet to be refined. The crucial condition for effective introduction of the incentives is, however, responsibility of the central and local governments for the commitments they take.

Tasks related to regional development stimulation:

- accelerate introduction of the instruments suggested by the Law "On Stimulation of Regional Development" and step up organizational activities for practical introduction of Regional Development Agreements ;
- consistently move away from direct budget funding to indirect instruments of regional development stimulation;
- finalize the institutional and legal provisions for the reform of local self-government.

Prospects for decentralization of regional management:

- introduction of subsidiarity principle into the system of power separation between the central and local governments, and the local self-government institutions representing administrative and territorial units if different levels;

- legislative definition of territorial jurisdiction boundaries for the central and local governments;
- clear legal regulations for mutual delegation of authorities between the central and local governments and their relations in managing conventional issues;
- establishing a practical mechanism of responsibility of the elected institutions and their executive committees in the communities;
- further budget decentralization and improvement of mechanisms to engage the regions in the national budgeting process.

Prospects for consolidation of the financial base for local self-governments:

- encouraging local governments to be interested in increasing their revenues;
- enhancing the incentive element of the inter-budget regulation;
- increasing the local budget revenues by improving tax laws in accordance with the Ukrainian tax reform, and in particular allowing local governments to impose specific taxes of fiscal significance for the area.

The main objectives of power decentralization are to transform territorial communities into the key players on the local level, and to bring the decision making centers as close to the community as possible. Only those functions that can not be effectively realized by the lower level institutions should be delegated to the higher levels. It is extremely important to introduce an effective mechanism of cooperation between the central and local governments in such socially significant areas as law enforcement, emergency management, etc. It is also necessary to adopt provisions for legal regulation of possible conflicts between various local authorities, as well as between the central and local governments.

### **3.2. ECONOMIC DEVELOPMENT AND SOCIAL POLICY OF THE REGIONS**

The economic and social development of most regions in 2007 was affected by macroeconomic trends, various elements of the national social and economic policies for the regions, and changes in the systems of public administration and local self-government. The regions experienced industrial growth, increased tax revenues and investments.

In general, most indicators of economic development were positive for the regions, growing at a higher rate than the year before. The capital city and Kyiv region developed faster as they enjoyed most attention of the investors. Economic growth was high in the western regions, though it would not yet significantly change the territorial structure of national economy.

Investor activity grew up notably in 2007, with the Cherkasy, Khmelnytskyi, Volyn, and Rivne Oblasts and Kyiv getting the largest FDI increase. Kyiv remains the most attractive place for foreign investors, and over 62% of the FDIs were invested in the capital city economy in 2007.

The main task for the regional social and economic policy is to increase competitiveness of the regions and effectively use their resource potential. This requires economic restructuring and diversification of most regions, justified and consistent innovative regional policies, modernization and development of the regional infrastructure, and introduction of practical measures to promote small and medium business in the regions.

Priorities for innovative development:

- construction of regional innovation systems with the broadest possible coverage of the region area, realization of its scientific and technical potential, and joint resource attraction from the national and local budgets, private capital, and household deposits;
- improvement of methodological base for strategic programming of innovative development on the regional and sub-regional levels;
- engaging the research community and intellectuals of the region in the implementation of

the structural and innovative model of development through the government's material and financial support to the initiatives targeting innovation-based consolidation of economic ties.

Government objectives for business support on the regional and local levels:

- improvement of regulatory policies, elimination of monopolies, "client" affairs, and corruption in the relations between the authorities and business;
- simplification of the permit system, reduction of the activities that are subject to licensing, removal of technical barriers hindering business work;
- providing enhanced financial security to businesses through the development of regional networks of insurance and security funds, and business credit cooperation;
- implementation of *acquis communautaire* principles in domestic regulatory policies to reduce politicizing of the regional and local governments, and impede unjustified interference in private economic activities.

The process of building a stable and socially just state with strong economy requires balancing the level of social and economic development of its regions and removal of interregional social tensions. The policy should also promote accelerated formation of the local middle class that would help eliminate poverty in the society, as well as bring new standards of economic behavior, and new forms of meeting one's social needs.

Objectives for development of community social services:

- identify priority tasks within the system of social services to reach decentralization, according to the European Social Charter principles;
- expedite adoption of the Social Service Reform Concepts that offer decentralization, introduction of new standards for social services, and local mechanisms for social demands;
- provide funding to the sectors of education, health care, social protection, and social security through reassignment of revenue sources and transfers;
- take into account the local situation while developing social payment norms on the basis of the national social standards and social guarantees;
- expand the area of application for mandatory social insurance.

The mission of the government agencies at all the levels is to create a powerful and structurally balanced economic base of the regions that would solve the key task, i.e. enhance the social component of regional development, achieve European standards, and provide a state social guarantee of adequate living conditions to every citizen of Ukraine regardless of one's place of residence.

### **3.3. TRANSBORDER COOPERATION IN ENLARGED EUROPE**

Transborder cooperation is an instrument for Ukraine's European integration that is implemented on the regional level. It is not only a form for developing contacts between adjacent territories of the neighboring countries, but the means of promoting European integration trends. Transborder cooperation performs infrastructural, socio-cultural, and communicative functions within the system of international relations; it boosts economic activities in the border areas by mobilizing the potential of the neighboring territories and using financial assistance of the European Union. It is the "small" local integration form for improvement of international relations.

Transborder cooperation strategy acquires a new meaning in the situation when Ukrainian neighbors have joined the EU and the Schengen area. Ukraine implements the declared strategy of European integration and positively assesses the provisions for free movement throughout the EU nations.

Forecasts can be made about the following stages of expansion and intensification of transborder cooperation in the new situation of Ukraine's neighbor nations being members of the Schengen space.

The stage of adaptation to the European standards will be complicated and even painful as the Schengen visas will be introduced, free movement of people will be restricted, and development of effective mechanisms of cooperation might be difficult.

The stage of implementation of transborder cooperation potential will yield notable results for social and economic development leading to a new systemic quality of transborder cooperation.

The priorities of Ukraine's regional policy in the field of transborder cooperation must be identified on the basis of comparative analysis of regional cooperation between the EU member nations and Ukraine, and by monitoring the implementation of transborder projects co-funded by the EU Neighborhood Programs and the National Program for Development of Transborder Cooperation for 2007- 2010. New EU financial instruments for priority projects, such as ENPI 2007- 2013, should also be taken into consideration. The new program period and new mechanisms of EU financial support require correcting the Ukrainian policy of transborder cooperation development.

Therefore, Ukraine's system of transborder cooperation should be harmonized with the European system through coordination of the planning periods and mechanisms of financial support. Conditions must be created for a regular dialog and coordination of programming and project implementation in the field of border and transborder regional development so that joint policies can be devised and realized and transborder clusters can be formed.

The role of Euroregions in regional development should be upgraded, with participation of Ukrainian oblasts, as they can become the organizational and financial platform of transborder cooperation, the centers for management and monitoring of transborder projects, and cooperative information centers.

\* \* \* \* \*

The principles of democracy, rationality, accountability, and efficiency are the landmarks that should guide further reforms of public administration in the area of regional development. An important aspect is compliance by the government with transparency standards in the process of development and implementation of regional policies and cooperation between the government and civil society institutions.

The regional administration system should be constructed starting with the lowest basic level, the community. Decentralization of power will be effective only on condition that it takes place concurrently in two areas: from the state to the community, and from the central government agencies to the local government agencies.

Given Ukraine's European aspirations, the top priority has been identified as the social dimension of the country's economy where provision of social services is one of the crucial areas. The State must meet constitutional demand of its citizens to have adequate social protection by providing the right quality of the social services. To do that, a perfect system of social services should be set up to comply with today's needs and requirements. Correspondingly, any activities planned within the framework of the administrative reform shall provide every resident of any town or village, in any region of Ukraine, with a possibility to fully realize one's natural and constitutional rights.



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**NATIONAL SECURITY OF UKRAINE:  
ACTIVITIES OF GOVERNMENT AGENCIES**

Ukraine: processes, results,  
**Prospects.**

#### **4.1. NATIONAL SECURITY STRATEGY OF UKRAINE: GOALS, MISSIONS, AND MECHANISMS OF IMPLEMENTATION**

The National Security Strategy of Ukraine was adopted with a decree of the President of Ukraine in early 2007 for the first time in the history of independent Ukraine. The strategy defines the key national interests, outlines external and internal conditions for their implementation, sets the goals, priorities, and the tasks of the government, and reflects the level of understanding of national security issues that can be found today in the Ukrainian society and political environment. The Strategy can be considered a starting point for consolidation of the political efforts in the field of national development, and a roadmap for the Ukrainian authorities to provide national security guarantees.

The Strategy is a frame of reference required to assess the effect of the government's activities and plan comprehensive practical steps to protect vital interests of the individual citizens, the society, and the state against external and internal threats. It provides the basis for directed and coordinated work of the government and the society, consolidation of the political forces and their constructive collaboration, irreversibility of the reforms, and political continuity. The National Security Strategy lays the foundation for the development of state programs in the areas that are crucial for the Ukrainian society.

The Strategy declares that the vital national interests of Ukraine are human and civil rights and freedoms; sovereignty of Ukraine; integrity of the state; competitiveness of the country and economic well-being of its population; compliance with the principle of separation of powers; independence and impartiality of the judiciary; limited interference of the government into economic, public, and political activities; safe life conditions and protection of environment; development of spiritual and cultural values; and securing a proper role for Ukraine in the international community

This definition of the national interests is important not only as it directs the efforts of the government toward achieving certain results, but also because it promotes a constructive policy transformation in the national security sector.

The main threats to Ukraine's national interests, as defined by the Strategy, are inadequate level of national integrity; instability of the economic development; the growing number of environmental and technical emergencies; failure of the security sector to meet the needs of the society and current challenges; the volatile and contradictory nature of external environment; the spread of terrorism; and negative external influence on Ukraine's information space.

The Strategy devises an effective and economic system of national security management that should reach the strategic objective, i.e. to safeguard the state sovereignty and territorial integrity, national unity on the basis of democratic development of the society, observance of human and civil rights and freedoms, establishing conditions for a dynamic economic growth, and ensuring European living standards of the population - regardless of dynamic external and internal political changes, and multi-dimensional threats that often cannot be foreseen.

The Strategy identifies the priorities for the government in the national security sector. The key priorities include:

1. Achieving national unity and consolidation of the society through development of the national identity, promotion of the common historical destiny concept, continued political reform aimed at establishing pluralistic democracy, and improvement of political communication.
2. Raising effectiveness of public administration and local self-government system through improvement of the constitutional regulation of social relations, increasing interaction of the government with civil society institutions, separation of state power and business, and the administrative reform.
3. Ensuring adequate economic security through improvement of the investment environment, innovation, tax reform, and land reform.
4. Ensuring energy security of the country by reducing its energy dependence, diversification of energy resources, and increasing the effectiveness of the fuel and energy complex management system.
5. Achieving high social standards and resolving demographic problems by strengthening the middle class, overcoming disproportions in migration processes, developing education system, reforming

health care system, and eliminating homelessness among children.

6. Providing safe living conditions and environmental protection through a balanced use of natural resources, improvement of water resource environment, development of a single national civil defense system, and reform of housing and communal services.

7. Reform of the security sector institutions to achieve high combat readiness of the Armed Forces and other military formations, provide them with adequate funding, streamline the structure and strength of the security sector institutions, improve the legal framework, and bring the criminal law and practice in conformity with standards and recommendations of the Council of Europe and the European Union.

8. Expedited implementation of the judicial reform through increased court transparency, streamlining the system of general jurisdiction courts, enhancing independence of the judiciary, and greatly improving enforcement of the judgments.

9. Developing the system of democratic civil control of the military organization and law enforcement agencies through improved legislative support, development of civil-military relations, gradual demilitarization of law enforcement and intelligence agencies, and involvement of the civil society to national security policy development.

10. Ensuring favorable external conditions for development and security of the country by enhancing collective security systems in the European and Euro-Atlantic areas, providing protection and support to Ukrainian citizens abroad, completing legal work to delimitate the state borders, developing relations with the EU and NATO, and managing "frozen" conflicts.

These goals and priorities envisage immediate implementation of reforms in all areas of life of the society and the state, i.e. political, administrative, judicial, fiscal, agrarian, local self-government, education, health care service, and security. These can be realized only with a consolidated effort of Ukraine's state institutions.

The effectiveness of the government security policy has to be evaluated in terms of achievement of the objectives and priorities defined by the Strategy. With continuous changes in the geopolitical landscape and complicated domestic political transformations, national security can only be guaranteed if all the Ukrainian governmental institutions follow the provisions of the National Security Strategy of Ukraine.

The President of Ukraine as the Head of State, Commander-in-Chief of the Armed Forces and Head of National Security and Defense Council of Ukraine plays the key role in consolidating the effort of the administration to implement the Strategy.

Ensuring implementation of the Strategy in accordance with the existing legislation is the responsibility of the Cabinet of Ministers of Ukraine which, among other things, must annually approve an implementation action plan. Unfortunately no such plan was approved for 2007, which emphasizes the importance of developing guarantees for realization of the Strategy and improving the implementation mechanisms.

A systemic approach should be the basis for effective centralized control of the Strategy implementation, therefore development of an intellectual support system is the key to establishing an effective mechanism for realization of the Strategy.

When developing the mechanism, the role of the National Security and Defense Council of Ukraine should be strengthened as a leading institution for systemic management of the national security sector. The scope of activities of the Council has to include conceptualization, or determining the main threats to national interests and their priority and evaluation of the existing and potential means of their neutralization, as well as strategic planning of the steps required to implement the Strategy.

#### **4.2. MANAGEMENT PROBLEMS IN THE NATIONAL SECURITY SECTOR**

The National Security Strategy of Ukraine calls for elaboration of an effective and economically sound system of management of the national security sector, primarily the development of effective nation-

al mechanisms implemented by means of coordinated efforts of the President of Ukraine as the Head of State, and the executive, legislative, and judicial branches of power.

The Constitution and the laws of Ukraine clearly specify the National Security and Defense Council of Ukraine as the state institution responsible for coordination of joint efforts of the executive agencies and monitoring enforcement of the adopted decisions.

The constitutional powers of the President as head of the national security sector directly imply supervision over power institutions. In this respect, not only coordination but also centralization of management is necessary as the national security sector cannot meet the objectives identified by the National Security Strategy unless it is guided by a unified system of control. The President can exercise his powers in the sector both directly and via the National Security and Defense Council of Ukraine.

Two contradicting tendencies could be observed in national security management during 2006 and 2007. On the one hand, the legal base was developed to introduce a new model of security sector and reforms started in several areas. However, those processes were not properly interrelated and coordinated, which brought imbalance in the management system.

In 2005 the National Security and Defense Council of Ukraine initiated a comprehensive review of the security sector to determine the model for its future development until 2015.

In the course of 2007, the following power institutions participated in the review and generally completed the analysis of their status and determined the areas for future reforms: the Ministry of Internal Affairs, the Security Service of Ukraine, Public Prosecutor's Office, the State Criminal Executive Service, the Foreign Intelligence Service, the Central Intelligence Directorate of the Ministry of Defense, the State Border Guard Service, the State Customs Service, the State Guard Department, and the State Service for Special Communications and Information Protection.

In late 2005, the President of Ukraine adopted the National Program for Development of the Armed Forces of Ukraine for 2006-2011 which clearly defined the prospects of the defense reform. Implementation of the Program will enable Ukraine to have modern professional Armed Forces compliant with European and Euro-Atlantic standards.

Several conceptual documents on the reform of law enforcement agencies were developed, in particular the Concepts for Reform of Law Enforcement Agencies of Ukraine (2006) and the Concept of National Policy in the Area of Criminal Justice and Law Enforcement in Ukraine (2007) were developed by special committees in compliance with the Presidential Decrees.

A number of ministries and agencies developed a new draft of the National Program of Reform and Development of Defense Industry for the period until 2010 and the draft Strategy of Defense Industry Development in Ukraine. These documents were discussed by the National Security and Defense Council of Ukraine in July 2007, and the decision was made to take a number of practical steps for their revision and final approval.

Owing to the efforts of the President of Ukraine, the National Security and Defense Council of Ukraine, and the Cabinet of Ministers of Ukraine, enforcement of decisions on funding of state power institutions was vastly improved.

Therefore, the conceptual foundations of the security sector reform were defined during 2006-2007.

At the same time, however, a number of serious problems in the management of the national security sector were caused by some ill-advised amendments to the Constitution which did not clarify the issue of control of the power structures in the situation when state power was shared by opposing political forces.

In 2006 the Cabinet of Ministers made an attempt to put economic activity of the Ministry of Defense under its direct supervision and thus bypass the Minister of Defense, and to change the administrative procedures in the fields of space research and armaments exports.

Efforts to slow down Ukraine's Euro-Atlantic integration came next despite previously adopted government decisions and political agreements. As a result, the process of joining NATO Membership

Action Plan was suspended in the fall of 2006 which created uncertainty regarding the military and political status of Ukraine within the European security system.

Before that, a joint Ukrainian-NATO exercise was disrupted through the efforts of certain political forces with assistance from abroad. The incident cast some doubt on the ability of the Ukrainian administration to comply with its security and defense commitments. Nevertheless, the Ministry of Defense continued its defense reform activities to achieve full interoperability between the Armed Forces of Ukraine and the NATO forces.

Several political confrontations took place in 2007, with certain political forces trying to get law enforcement agencies involved, which culminated in an attempt by special militsiya troops to seize the building of the Office of the Prosecutor General. Three law enforcement agencies of different subordination were involved in the incident, namely the Office of the Prosecutor General, the Ministry of Internal Affairs, and the State Guard Department of Ukraine.

The President of Ukraine used his constitutional powers to resolve the crisis as the Commander-in-Chief of the Armed Forces of Ukraine and head of the national security sector and issued a Decree<sup>10</sup> adjusting the command system of the Internal Troops of the Ministry of Internal Affairs, which ensured a proper disconnection of the law enforcement agencies from the political confrontation.

The Cabinet of Ministers interpreted the constitutional amendments in such a manner as if the constitutional powers of the President as head of the national security sector did not apply to any of the executive levels. Moreover, the attempts of the Cabinet to expand its control over the power structures suggested that it was determined to form an alternative to the President's system of national security control. However, the constitutional powers of the Cabinet of Ministers would only allow it to implement national security policies but not exercise control.

In 2006-2007, the Cabinet of Ministers issued several orders, without consulting with the President, in an attempt to change the appointment procedures and subordination of the heads of Ukrspetsekспорт State Company for Exports and Imports of Military Products, the National Space Agency, the State Customs Service, the State Criminal Execution Service, and the State Export Control Service of Ukraine. This had a negative effect on political and economic processes in Ukraine.

The degree of unbalance related to administration of the national security sector was confirmed by the fact that the President of Ukraine had to apply several times to the Constitutional Court of Ukraine in 2006 and 2007 asking for its legal assessment of the Cabinet of Ministers' actions concerning control of power institutions.

Another problem emerged when the reform of the security institutions was used as an element of election campaigning. Political forces often tried to win votes during the parliamentary election campaigns of 2006 and 2007 by making impossible promises that undermined long-term plans of the security sector reform as stipulated by the respective national programs.

The lack of coordination in the area of command and control led to the situation when the security sector became an instrument for political forces to strengthen their influence on the state power institutions. The President of Ukraine took steps to alleviate the threat and initiated another round of demilitarization of those institutions by reducing the number of public positions held by the military officers of the Ministry of Defense, the Security Service and other power structures<sup>11</sup>.

The absence of common approaches to the development of the national security system and its evaluation, coupled with political instability, considerably undermined the effectiveness of the Comprehensive Review and thus hindered the development of sound plans for the security sector reform. Certain clauses of the developed documents do not appear to agree with one another, and the Concept of law enforcement reform was never adopted.

Therefore, imbalanced management of the national security sector of Ukraine became another source of instability during 2006 and 2007, mostly as a result of inadequate constitutional amendments which contributed to the generally imbalanced system of power in Ukraine. The other reasons were

<sup>10</sup> *The Decree of the President of Ukraine No. 474/2007 of May 25, 2007 "On adjustment of the command system of Internal Troops in conformity with the Constitution of Ukraine".*

<sup>11</sup> *The Decree of the President of Ukraine No. 1020/2007 of October 25, 2007 "On the list of positions in public agencies, institutions and organizations that can be filled in by the military servicemen of the*

the contradictions within the legislative base, the lack of a single methodological basis for the reform, and, finally, the complex nature of the very object of management, i.e., the security sector.

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The fundamental guidelines that define the tasks of Ukraine's national security can be found in the Law of Ukraine "On the Fundamentals of National Security of Ukraine" and the National Security Strategy of Ukraine.

The strategic goal of national security policy of Ukraine is to ensure state sovereignty and territorial integrity, national unity on the basis of democratic progress for the society and the state, protection of human and citizen rights and freedoms, provide conditions for dynamic economic growth, and achieve European social life standards.

Ratification of the National Security Strategy is an important first step to meet many of these objectives. The issues that need to be addressed immediately include delimitation of authorities between different branches of power concerning administration of the subjects of national security, systemic reform of the security sector, and effective restructuring of the defense industry.

The analysis of the current state of national security sector of Ukraine suggests significant complications in the process of development and implementation of an effective national policy in this field. These complications result from the dynamic changes in the global political and economic landscape as well as from certain domestic problems.

The main internal cause of these complications is the amendments to the Constitution of Ukraine and the contradictions they have brought about within the system of security management. In the current situation, solutions can be found in strengthening the administration vertical of the national security and defense sector, protecting it against political confrontation and continuing its systemic reform.

Most tasks of the national security sector are about the realization of Ukraine's national interests. The main objective in terms of domestic policy is to implement the vast array of political, economic and social reforms including the reform of the security and defense sector of Ukraine. In terms of foreign policy, the country's national security requires consistent progress toward European and Euro-Atlantic integration. These objectives can only be met through consolidated effort of all branches of power and the responsible patriotic forces.

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Armed Forces of Ukraine, other military units, special law-enforcement agencies, and the military ranks required for these positions".

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**UKRAINE IN TODAY'S WORLD**

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## **5.1. UKRAINE'S NATIONAL INTERESTS IN THE AREA OF INTERNATIONAL RELATIONS**

Ukraine is facing the task of implementing its national interests in the world that is extremely dynamic and developing on the basis of absolutely new processes that history has never known before.

The level of interdependency between the nations keeps rising. Even the biggest countries can no longer solve all the critical problems on their own. The role of nongovernmental institutions is steadily growing, first and foremost in economy, and transnational companies produce today about a third of the world's collective product. The national borders do not block any more the flow of goods, capitals, or ideas.

Those changes demonstrate the power of globalization, i.e. the mix of economic, political, demographic, and social processes that form a new level of interdependency between the states. The essence of those processes is the development of global world markets, modernization that is based on rapidly growing technologies, primarily IT and social ones, and the emergence of new centers of economic gravity and political influence.

Globalization results in a new level of competition between the countries and regional groups. Therefore, if a nation wants to be successful in the 21st century it has to be able to realize its national interests by participating in globalization processes and adapting accordingly its government and social mechanisms.

Globalization leads to a transformation of the international political system. Resorting to pure and hard force is not always effective, and no military power can be unlimited, as history has repeatedly confirmed.

It is much more productive to build a broad network of political, economic, information, humanitarian, cultural, and other kinds of relations, developing thus civilized cooperation on the basis of certain values. The transformation successes of the countries of Central and Eastern Europe achieved in the course of the European Union enlargement has proved that the soft force of civilizing efforts can effectively direct various processes within national political and socio-economic systems.

The world role of the great powers is changing, and so is the correlation of their political, economic, and military potentials. A growing number of the nations aspire to have a global role. As a result, one clearly sees the benefits of replacing unilateral policy with a cooperative model of joint responsibility for world developments. The recommendations on the UN reform designed by the High Level Panel on Threats, Challenges, and Change reflect the growing understanding of the importance of multilateral efforts.

At the same time, globalization enhances the trend of dilution of national sovereignty. The countries face an increasing dependency on external decisions. Globalization forms the worldwide information space that has an ever stronger influence on the countries and their societies. The traditional societies, and even the modern ones, find it harder to preserve their political and cultural identity and resist unification.

A huge difference in the living standards, the ageing population in some nations and a high birth rate in others result in powerful migration flows that change the ethnical and cultural landscapes of countries and continents.

All this provokes political and cultural protest that acquires various forms, from governmental efforts to preserve national identity to public actions of antiglobalist nature.

Those trends add to the dramatic problems that many nations have had for a long time: poverty, environmental degradation, no access to education and health care. All that deprives billions of people of the chance to have a decent life.

Therefore, the doubtless economic successes of globalization have an opposite side as next to them new global, regional, and national threats emerge.

The current social and political situation is characterized by intensified interethnic and interconfes-

sional confrontation that leads to civil conflicts and separatism. Political extremism and religious fundamentalism are the farthest forms of those destructive factors. The threat is aggravated by the policies of certain authoritarian regimes that promote, directly or indirectly, formation of the conflict environment where extremism and terrorism grow.

The threat of emerging new conflicts and escalating frozen ones exists in close proximity to Ukraine's borders. The most dangerous ones are those in Transdnistria and the Caucasus, so the country's active efforts to find solutions to those conflicts are a national security issue.

An increasingly serious challenge for Ukraine is uncontrolled mass migration from poor and underdeveloped countries and the regions of civil and international conflicts.

Ukraine as a sovereign nation also faces the threat of organized international crime engaged in human trafficking, trade in arms, hazardous substances and drugs, especially as it is accompanied by corruption, money laundering, disruptive infiltration of the country's banking and financial systems, and so on.

Proliferation of weapons of mass destruction and means of their delivery are another danger for the nations, regions, and all of the world system.

Ukraine is affected by the global fight for access to the natural resources, first and foremost control of energy sources and means of delivery. That fight is evident when one looks at the situation with the formation of new energy transportation corridors from the Caspian region that are extremely important for consolidation of Ukraine's strategic positions.

Independence and sovereignty of this country, its security and civilization prospects are directly linked to European security and Ukraine's integration to the Euro-Atlantic community.

The North Atlantic Alliance has proved its effectiveness as a source of peace and stability in the European continent for over fifty years. NATO is gradually transforming from a block whose primary task was deterrence and defense against aggression into an organization that guarantees security and stability in a broad area.

The security efforts of the Alliance are not only supported by the member nations. It is symbolic that over thirty nations, most of them not NATO members, have participated in the ISAF mission in Afghanistan which, despite its difficulties, aimed at eliminating potential sources of terrorism and crime.

The transformation of the North Atlantic Alliance is not over yet. Its participants and partners, including some of Ukraine's neighbors, are collectively looking for solutions to the new global threats and challenges. Active involvement of Ukraine in the process and the country's efforts to join the European Union and NATO enable Ukraine to realize its political and economic interests while contributing to international peace and stability.

The Ukrainian state has consistently directed its efforts, in accordance with the national interests, to the most pressing problems of the international community, among which the following should be mentioned.

- The fight against terrorism and participation in peace support operations.

In 2007, Ukrainian Navy took part in NATO-lead Active Endeavor naval counterterrorist operation in the Mediterranean. The successful experience of the joint mission has encouraged Ukraine to carry on its participation in the Active Endeavor in 2008 and 2009.

The Ukrainian Armed Forces continue their active participation in the UN peacekeeping operations where they gain substantial experience and strengthen the country's position in the United Nations. As of September 1, 2007, five hundred and fifty Ukrainian peacekeepers were engaged in seven UN missions.

Another important step for Ukraine was joining in 2007 the Agreement on the Multinational Peace Force Southeast Europe.

- Non-proliferation of weapons of mass destruction.

Ukraine reinforced its high international reputation in the area of non-proliferation in 2007 as it joined the Global Initiative to Combat Nuclear Terrorism and stepped up its work in the Proliferation Security Initiative (PSI). Eastern Shield 2007 international exercise was carried out within PSI framework in Odessa to practice interception of suspicious cargoes. The key objective of the exercise was development of intergovernmental mechanisms to identify and terminate illegal movement of WMD components.

- Countering illegal migration.

Work is under way to implement the idea of common readmission area between the EU, Ukraine, Russian Federation, Belarus, and the countries of illegal migration origin through adoption of comprehensive bilateral agreements. The key agreements on readmission with the European Union and the Russian Federations have already been signed and submitted to the Verkhovna Rada for ratification.

As part of this process, Ukraine has taken a number of steps to strengthen its migration regulations. In particular, certain amendments were adopted in June 2007 to the rules that regulate entrance of foreigners and persons without citizenship into Ukraine, their departure from Ukraine, and transit through its territory.

Intensive cooperation in migration management between Ukraine and the international organizations has yielded some appreciable results, such as introduction of Zhuravtsi temporary residence station.

Vigorous measures have been undertaken to counter human trafficking. March 2007 saw the introduction of the Program to Counter Human Trafficking for 2007-2010. In November, Ukraine joined the Council of Europe Convention on Action against Trafficking in Human Beings, and preparation for its ratification is under way.

- Fighting corruption.

Ukraine continued during 2007 its active involvement in the fight against corruption within the framework of Support to good governance: Project against corruption in Ukraine (UPAC) carried out by the Council of Europe and the European Commission.

At the same time, the October 2007 report of the group of Council of Europe member nations against corruption (GRECO) criticized the level of corruption in Ukraine, which proves that efforts to fight corruption should be stepped up with consideration of the twenty five recommendations that the report contains.

Partnership with the international community in the aforementioned areas is in line with Ukraine's national interests, and it will remain among the most critical international political objectives of the Government.

Globalization and development of a new world order require that Ukraine build long-term relations with the world centers of gravity. Implementation of Ukraine's national interests directly depends on the success of the country's participation in the European integration processes, extension of bilateral cooperation with its strategic partners, establishment of Ukraine as a regional leader, and intensification of its foreign policy in the southeast direction.

These objectives can be reached if the strategic goals and priorities of Ukraine's foreign policy are clearly defined.

## **5.2. STRATEGIC GOALS AND PRIORITIES OF UKRAINE'S FOREIGN POLICY**

Strategic goals of Ukraine's foreign policy are determined by its fundamental national interests. Today's strategic objective of the country's foreign policy is to secure its development as an independent sovereign nation and reach a high level of competitiveness for the state and the society. The European values that distinguish the national identity of the Ukrainian society can lay ground for the country's modernization and transformation of its political system, economy, social and humanitarian fields. The benefits of this approach are demonstrated by the neighboring countries of Central and Eastern Europe.

The successful foreign policy of Ukraine should be based upon a balance between its goals and possibilities to reach them. The level of accumulation of the country's political, diplomatic, military, and economic resources required to achieve the key foreign policy objectives should correspond to their real significance for the national interests of Ukraine. The scale of Ukrainian involvement in the international affairs must adequately reflect Ukraine's potential and promote consolidation of the country's positions.

Ukrainian foreign policy can become consistent, transparent, and predictable only if it is firmly based on the principles of Ukraine's foreign strategy that should stay outside internal party politics. Ukrainian politicians must stop using certain foreign policy factors in their internal political games. Establishing such a political tradition that distinguishes mature democracies would be appreciated by the partners and could enable Ukraine to steadily reinforce its international positions. Attempts to review Ukraine's foreign political course and bring imbalance into the system of policy management are harmful for the country's national interests and can not be accepted.

Ukraine's national interests in the internal political dimension and within the system of international relations are indivisible. They are mostly about providing freedom, independence and national sovereignty, an adequate level of security to the Ukrainian State and its society, creating conditions for the country's modernization and sustainable economic development combined with effective protection of the rights and freedoms of the Ukrainian citizens.

An essential aspect for implementation of Ukraine's national interests in foreign policy is support to the process of development of the Ukrainian political nation that is taking place inside the country. It is important to promote the image of the Ukrainian state and nation as an original historic, cultural, political, social, and economic phenomenon developing within the general boundaries of the European civilization.

Placing Ukraine into the European historic context and cultural space should be supported by significant diplomatic efforts to commemorate the victims of 1932-1933 Ukrainian Holodomor, or communist-inspired famine, and creating the environment for a fair valuation of that criminal act by international law.

Ukraine's constant national interests determine its constant priorities and strategic objectives for the country's foreign policy. They are established with the legal acts issued by the supreme bodies of state power: 1993 Resolution of the Verkhovna Rada "On Principal Directions of Ukraine's Foreign Policy"; the Law № 964-IV "On Fundamentals of Ukraine's National Security" of June 19, 2003; NSDC Resolution "On Ukraine's Strategy in Relation to the North Atlantic Treaty Organization (NATO)" of May 23, 2002, and Decree of the President of Ukraine of July 8, 2002; the Strategy of Ukraine's Integration to the European Union adopted with Presidential Decree № 615/98 of June 11, 1998, and other legal documents and resolutions.

The documents identify the following priorities and strategic goals.

Formation of a secure international environment, support to international peace and security through consolidation of collective security systems in the European and Transatlantic areas, further participation in international peacekeeping and multilateral efforts to counter proliferation of weapons of mass destruction, terrorism, transnational organized crime, human trafficking, drug trafficking, and other challenges to the international security.

Protection and support to the Ukrainian citizens and their interests abroad through development of legal agreements with other nations, primarily members of the European Union, softening the impact of accession of Ukraine's neighbors, the new EU member nations, to the Schengen Area, protection and assistance to Ukrainian citizens who find themselves in conflict and/or disaster areas, and so on.

Securing a proper place for Ukraine in the international labor division, safe and efficient accession of Ukrainian economy to the world economic system, and in particular to the World Trade Organization. The requirements are: to provide favorable external conditions for achieving maximum effect from Ukraine's participation in the international labor division; minimize the risks of integration in the world economy; significantly enhance the level of national security in terms of energy, environment, and resources; actively attract foreign investments directed at economic modernization; increase Ukrainian

exports and encourage national industry and business to work in the foreign markets.

Accession to the European Union as a strategic objective for Ukraine. The country's foreign strategy is primarily about Ukraine's integration in the EU and NATO. Political decisions have defined the following algorithm of Ukraine's progress toward the European Union: accession to WTO, establishment of a free trade area, development of the new Enhanced Agreement with the EU, establishment of the customs union, acquiring the status of an associated member, and then a full member of the EU.

Joining the European and Euro-Atlantic security systems implies developing more profound relations with the North Atlantic Treaty Organization and preparing ground for Ukraine's accession to NATO, parallel with its participation in the EU and OSCE security programs. The relations with NATO, the key security organization for Europe, should be based on Ukraine's compliance with its commitments, implementation of the joint documents within the scheduled timeframe, and filling cooperation plans with specific activities.

The Verkhovna Rada has legislatively declared that accession of Ukraine to the Alliance is one of the critical priorities for its foreign policy. Although it has not yet become a practical task, it is extremely important for Ukraine to be proactive in its approach to the objective and deepen its relations with NATO.

The agenda of the relations between Ukraine and the North Atlantic Treaty Organization corresponds in practice to the list of the country's strategic interests where reform of all sectors of public and social life plays a special role. Further democratization, freedom of speech, independence of the judiciary, fight against corruption, establishment of effective civil control of every element of the country's military organization are the factors that can confirm Ukraine's readiness for membership in the Alliance.

The key areas of bilateral cooperation include a broad range of relations with the EU member nations, Russia, USA, and the regional leaders.

The development of Ukrainian-Russian cooperation based on the generally recognized norms and principles on international law, pragmatic and open nature of relations, and mutually beneficial cooperation is a key condition for national and regional security.

The identified priorities should open up possibilities for specific steps: establishment of free trade area without exceptions and restrictions on the basis of WTO rules; development of joint ventures and corporations that would be competitive in the world markets; final delimitation of the borders in accordance with international law; working out issues related to the temporary stationing of the Russian Black Sea Fleet on the territory of Ukraine; improvement of cooperation in the humanitarian field based on parity and equal rights; development of a realistic perception of Ukrainian-Russian relations in the society with a view to form a human dimension for the mutually beneficial political, economic, and humanitarian cooperation between the nations.

Given the fragmentation of post-Soviet space and emergence of new economic and political structures in the area, it is necessary to decide how expedient it is for Ukraine to participate in the regional organizations, and what level and mechanisms of participation should Ukraine have in view of the goals and priorities of its foreign policy. Russia's initiatives to engage Ukraine in closer economic integration within the framework of such projects as EURASES and Common Economic Space have been unilaterally justified from the political rather than economic perspective. Establishment of the free trade area on WTO principles is the highest level of such integration acceptable for Ukraine with regard to its national interests. Certain elements of integration with the post-Soviet nations can be useful as long as they do not impede Ukraine from implementing its basic strategic objectives, i.e. joining the EU and NATO.

The new regional policy of Ukraine must become a key ingredient of the country's European and Euro-Atlantic strategy. The main priorities of regional cooperation in the Baltic-Black Sea-Caspian region are:

intensification of cooperation within the framework of the Organization for Democracy and Economic Development - GUAM; stepping up bilateral cooperation with the nations of the Caspian Region and Central Asia, primarily in the energy sector, and development of a common energy transit space;

active cooperation with the European regional organizations; implementation of multilateral; economic and security projects;

assistance to frozen conflict management in the interests of all the nations of the region.

### **5.3. IMPLEMENTATION OF THE STRATEGIC GOALS OF INTEGRATION INTO THE EUROPEAN AND EURO-ATLANTIC INSTITUTIONS**

#### **5.3.1. European Integration of Ukraine**

European integration is the main and unchanging priority in the foreign policy of Ukraine. European integration is necessitated by the very fact of Ukraine's being part of the European civilization. In essence it is a process of realization of the unique opportunities that unfold before Ukraine and its citizens due to recognition and reinforcement of our European identity.

The process of European integration implies deep-going transformations within the nation, enhancement of democracy and of the rule of law, Ukraine's empowerment as a competitive and investor-friendly participant of the global economy. European integration meets the interests of all Ukrainian citizens as a way to ensure the European political, economic, social and humanitarian standards and to better the quality of life for all strata of the society.

Membership in the EU is Ukraine's strategic goal. Its reaching depends both upon the efficacy of the Ukrainian effort and on the European Union's readiness for such a step. This readiness may be attained at a qualitatively new level of integration inside the EU itself.

The signing of Lisbon Treaty in December 2007 signified an important stage in the integration process within the European Union.

This document stems from a less ambitious and more pragmatic (from the viewpoint of most EU members) vision of the Union's future developments. The treaty opens the gateway for further institutional consolidation of the EU after a lengthy pause caused by the failure with adoption of the draft European Constitution.

Although the EU displays some signs of the "enlargement fatigue", its overcoming of the constitutional crisis is, in general, creating the prerequisites for a positive response to Ukraine's European aspirations.

Certain opportunities for resolving the issue of Ukraine's European perspective may be opened by the new basic agreement between Ukraine and the EU. The process of its preparation is under way. The new Enhanced Agreement is to replace the Partnership and Cooperation Agreement (PCA) that expires in early 2008 and already fails to conform to the present level of cooperation between Ukraine and the European Union.

A major priority of Ukraine's European integration lies in the establishment of a free trade zone with the EU. Relevant formal negotiations are to begin immediately upon accession of Ukraine to the WTO. The signing of the last bilateral protocols evidences Ukraine's considerable advance towards WTO and gives grounds to predict its membership in the Organization and, respectively, the commencement of the FTZ negotiations process in 2008.

At present the EU regards cooperation with Ukraine in the framework of the European Neighborhood Policy (ENP) that offers "privileged relations" to the neighbors. These relations are to rest upon mutual recognition of joint values, principles of market economy and sustainable development.

At the same time ENP has to offer equal opportunities both to the nations seeking its membership and to the countries that do not pursue this aim. The strong difference in the neighboring countries' aims prompted the need to somewhat review the ENP in terms of regional and sectoral differentiation. This process took place in 2007 but did not come to its end.

The Strengthening of the European Neighborhood Policy strategic paper was adopted in December 2006 to augment ENP mechanisms and upgrade the policy. The European Neighborhood and Partnership Instrument (ENPI) emerged to provide financial and other support to ENP activities in 2007 - 2013.

The National Indicative Program for 2007-2010 was developed within the ENPI framework. EU plans to financially support its implementation. The key priorities of the Program that are important for the interests of Ukraine are:

development of transport and energy networks,  
protection of the environment,  
cross-border and migration management, customs activities, combating organized crime,  
cultural exchange, people to people relations, exchange of information, and  
countering illegal proliferation of weapons.

At the same time ENPI serves as an instrument to forestall political or economic instabilities in specific regions and cannot provide a response to the European aspirations of Ukraine.

A search for ways of transforming the EU's eastern policy is manifest in Germany's proposal on implementation of ENP-Plus concept initiative, which envisages:

introduction of the enhanced association mechanisms for countries willing to gain EU membership,  
creation of favorable conditions for involvement of Russia into ENP, and  
more active politics of the EU in the Caucasus and Central Asia.

However, the ENP-Plus initiative, similarly to ENP, does not embed the prospect of Ukraine's membership in the EU. Ukraine is offered a new form of relations - "close cooperation" - as a link between the presently pursued policy of neighborhood and full-fledged membership in the Union. Although in general ENP-Plus corresponds to the progressive development of Ukraine's relations with the EU, in the course of the negotiations process the Ukrainian side should quest for the language adequately reflecting the European integration prospects for Ukraine.

Another matter related to the European prospect is the future of Ukraine's borders with the EU member states. It is in the interests of this nation to develop them as "common" borders, to accordingly upgrade their infrastructure and to mold the crossing procedures.

Sadly, the practice of Schengen visa issuance to Ukrainian nationals in 2007 showed some complications in the procedure and frequenter refusals. In this conjunction Ukraine's measures aiming at prevention of a stricter visa regime seem very adequate.

Reaching an agreement on a simpler visa regime is one of the key elements of the new format of relations between Ukraine and the EU. The Ukrainian objective is to grant free movement to its own citizens and to develop a full-fledged non-visa regime with the European Union. The accomplishment of this goal envisages formal arrangements on minor cross-border movement with Slovakia, Poland and Romania - similar to such 2007 agreement with Hungary. Such agreements would lessen the effect of the EU accession of those countries for the population of near-border areas.

Ukraine has actively continued its policy of alignment with the European Union's statements and stances on regional and international issues. Specifically, throughout 2007 Ukraine joined in over four hundred EU statements.

Ukraine and the EU are actively cooperating to regulate the Transdnistrian conflict. The plan authored by President of Ukraine Viktor Yushchenko plays a positive role in the development of the process.

The on-going efficient customs regime at the Transdnistrian span of the Ukrainian-Moldovan border serves as an example of the mutually beneficial and successful cooperation between Ukraine and the EU. The mandate of the EU Mission at this border was prolonged last year for the coming two year period.

By and large it is crucial for Ukraine to pursue the policy of active participation in the shaping of the European security system and to seek full-scale involvement in the EU security initiatives.

Traditionally, the European Union has fully relied on NATO political and defense mechanisms of secu-

rity. Yet, in the new conditions the Union displays an intention to step up its own capacity of solving European and global security issues.

It appears of utmost significance that the development of the European Security and Defense Policy (ESDP) rests upon recognition of NATO and Transatlantic partnership in its entirety as the principal provider of security for the whole European continent.

The EU has managed to substantially develop its military component as an important linkage within ESDP over the last decade. The generation and enhancement of its military capabilities has allowed the EU to undertake peacekeeping missions both in the European continent and beyond its territory.

Ukraine can also become a full-grown participant of the European security system. The extent of this country's participation in the forming of such system directly depends on the Ukrainian initiatives and activities as a co-provider of the international security in general and European security in particular.

Ukraine has for quite a long time been an active participant of multinational cooperation in the sphere of international security, it has acquired some experience of joint action under the aegis of the UN, OSCE and NATO, and thanks to it gained weighty international credibility. Ukraine's participation in the ESDP is regulated by the Agreement establishing a framework for participation of Ukraine in EU-led crisis management operations.

Ukraine took direct part in the EU Police Mission in the Republic of Macedonia (2003 - 2005) and remains a participant of the EU Police Mission in Bosnia and Herzegovina (2003 - 2007).

Cooperation between Ukraine and the EU aimed at prevention of destabilization in the frozen conflict areas as a result of unilateral declaration of Kosovo independence is of special significance.

In 2007 the development of regulatory framework for Ukraine's relations with the European financial and loaning institutions gave birth to specific infrastructure projects.

Ukraine signed its first finance agreement with the European Investment Bank (EIB), and the State Motor Road Service of Ukraine (Ukravtodor) - a draft agreement with the bank on a €200 million loan for the implementation of the Ukrainian Highway Project. This project will allow bringing M-06 Kyiv - Chop highway into conformity with the European standards.

Another planned arrangement is on EIB and EBRD funding of a project to upgrade Ukraine's electric power infrastructure. EBRD's new approved strategy of action provides for further support of Ukrainian transport and communications infrastructure development, financing energy saving efforts in central heating and investments into improvements and modernization of municipal utilities. As a whole, EBRD has committed to invest over €3 billion into nearly 140 projects throughout Ukraine.

Permanent bilateral mechanisms of cooperation with EU Member States are extremely important for the amassment of EU integration experience. The Ukrainian-Polish Conference and the Ukrainian-Lithuanian Commission on European Integration are positive examples thereof.

The EU enlargement that involved CEE countries with which Ukraine shares common history has opened new opportunities for Ukraine's progress toward European integration.

Implementation of mutually beneficial projects with our European neighbors and Ukraine's active regional policy open up new prospects for enhanced regional leadership of this country in view of the fact that stability and security in the European continent and establishment of reliable transit ways are defined as priorities. These priorities are inseparably linked with the area between the Baltic, Black and Caspian Seas.

Integration into the European energy space constitutes a remarkably promising vector in the development of Ukraine's relations with the EU. In the Union's 2006 Energy Security Strategy, Ukraine was deemed a strategic partner and a transitter of power resources to Europe. Therefore, the interests of the two parties in ensuring energy security and energy markets integration essentially coincide.

Shared interests of Ukraine and the EU, and the Union's advent into the Black Sea region have turned the power sector into a priority area of cooperation. The principal provisions and benchmarks for

energy cooperation of Ukraine and the EU are presented in the Ukraine-EU Action Plan and in the Memorandum of Understanding on cooperation in the power industry.

Large dependence of the European Union upon Ukraine's gas pumping capacity determines the EU's interest in transparency and reliability of the operation of Ukrainian gas traffic system. Accordingly, the EU provides financial and technical assistance for the implementation of specific projects designed to maintain and upgrade the Ukrainian gas transportation infrastructure. For example, the Union funded the conduct of primary audit of Ukraine's gas transport system and thus helped it identify the needed amount of investment - €2.5 billion over the period from 2007 through 2013.

Ukraine's advantageous geopolitical location gives it a chance to eventually become an important country for oil transit from the Caspian region and Central Asia to the EU through the Caspian Sea - Southern Caucasus - Ukraine - Central Europe corridor.

This project is strategically significant for Ukraine and its Central European neighbors (Poland, Slovakia, the Czech Republic, and Hungary) as well as for Azerbaijan and Kazakhstan. A shared vision of the promise of massive energy passage through the Baltic, Caspian and Black Seas region means considerable prospects for the GUAM countries of this region.

Ukraine's possession of excessive electric power generation capacities implies Ukraine's and the EU's reciprocal interests in further integration of power grids and establishment, in the future, of a common electric power market.

The energy strategy of Ukraine for the period until 2030 plans for a more than twofold increase - up to 25 billion kilowatt/hours - of its export capacity. As a result, volumes of exports to the neighboring countries will go up, and Ukraine will also be able to supply electric power to the Baltic and South European nations.

Nuclear power generation plays a special role in the energy cooperation projects between Ukraine and the EU. This is mainly explained by the geographical proximity of Ukraine and the Union and by the great share of nuclear power plants in Ukrainian energy generation and, consequently, in Ukrainian energy exports.

The European Union is interested in the safe operation of Ukrainian nuclear power facilities at all stages of the nuclear cycle. In this context Ukraine and the EU are conducting joint assessments of nuclear safety at Ukrainian nuclear power plants.

Interaction of Ukrainian and the European Union's energy markets will require reforms in the energy sector of Ukraine in order to shape an open and competitive domestic market, to switch over to market pricing of primary fuels and electric power and to establish independent regulating bodies in the power sector. The systems of technical regulation and statistics will also require integration, while the laws of Ukraine will have to be harmonized with the EU guidelines.

The European Union supports Ukraine's accession to the presently emerging uniform regulatory framework for the energy sector. This attitude was displayed by granting Ukraine the status of observer in the Energy Community. The EU expresses its willingness to support full-fledged participation of Ukraine in the Community on condition of positive assessment of the safety level at all operational nuclear power plants in the country.

### **5.3.2. Euro-Atlantic Integration of Ukraine**

In the conditions of globalization, no nation, even a nuclear one, can fully ensure its security unless in close cooperation with influential international security structures of the sub-regional, regional and global levels.

Emergence of the single global space of international security gradually and unremittingly deprives adherence to neutrality and non-allied status of any reasoning. Even the traditionally neutral European countries have long enjoyed the benefits of collective security shaped by NATO and the EU's security policy and are making their feasible contributions into the development of the security architecture for the entire Europe. In the long run lessons learned from history - both ours and foreign - prove that neutrality has never sufficiently warranted a proper security level.

These lessons were largely taken into account at the time of identification of Ukraine's foreign affairs priorities. Therefore, Ukraine's priority and the main principle of its foreign policy is the accession to the European and Euro-Atlantic security systems, which signifies deepening of relations with the North Atlantic Treaty Organization and preparing the ground for Ukraine's NATO membership.

Presently the political dialogue between Ukraine and NATO unfolds at the meetings of NATO-Ukraine Commission that regularly reviews the status of cooperation and holds political consultations. Apart from that, Ukraine and NATO conduct meetings of their Military Committee and other bilateral events. Ukraine has a national system of coordination of its cooperation with NATO, and the Interagency Commission for Preparation for NATO Accession is its efficient mechanism.

The program of Intensified Dialogue (ID) between Ukraine and NATO on membership and relevant reforms is under way. In 2006 the NATO nations expressed their consent to raising relations with Ukraine to the Membership Action Plan (MAP) level. This demonstrated their support of Ukraine's effort to meet the member-nation requirements under the Washington Treaty of 1949. MAP implies the conduct of nationally important democratic reforms in the political, economic and security realms with the support and qualified assessment of the reform efficiency on the part of Ukraine's partners.

However, the political situation inside Ukraine and the use of NATO membership issue by Ukraine's principal political forces as a means of internal political rivalry has not yet made it possible to move cooperation with NATO up to the MAP format.

The final declaration of NATO Riga Summit carries the Alliance's wish to continue the intensified dialogue without any pre-judgment regarding future decisions.

It is evident that the Alliance does not close the window of opportunity for Ukraine. A proof of this is the US 2007 law on support of NATO accession for Ukraine and Georgia.

For these very reasons consolidation of positions of the principal political forces with regard to NATO membership is to become the topmost priority in Ukraine's Euro-Atlantic integration effort. At present there are three factors serving as indicators of the seriousness of Ukrainian intentions: positive changes of NATO attitudes in the society, perseverance in the security sector reforms, and continuation of military cooperation with the Alliance.

Ukraine has had a long and positive experience of cooperation with NATO that is important for an appraisal of this nation's Euro-Atlantic prospects. NATO helps Ukraine in resolving the problems of the retired military. Due to financial support of the Alliance, Ukrainian officers discharged in the course of downsizing programs could attend over 40 foreign languages courses and about 20 trainings on business fundamentals during the period between December 1999 and 2007.

In the domain of civil cooperation with NATO, Ukraine has received effective practical assistance in mitigation of emergencies and industrial disasters, including the response to breakage at Kharkiv waste collection facilities and elimination of flood consequences in Transcarpathia. At the same time, the absence of formal Ukrainian requests of assistance in cases of industrial disasters has limited cooperation between Ukraine and NATO in emergency relief to participation of Ministry for Emergencies representatives in training events foreseen in the NATO-Ukraine Individual Partnership Program in the area of civil emergency planning and in the framework of NATO-Ukraine Action Plan.

The NATO project of establishing a trust fund for elimination of obsolete surplus munitions in Ukraine serves as an example of positive accomplishments in this country's cooperation with the Alliance. Cooperation with NATO allowed retaining Yavoriv training ground (Lviv Region), the operation of which requires contracting dozens of small and medium-sized companies. Thanks to the functioning training ground thousands of people have well-paid jobs and receive contracts for food-stuffs, clothes, and other relevant everyday services.

In the area of military cooperation priority is given to the defense and military goals included into the NATO-Ukraine Action Plan and the respective annual target plans. Main attention is focused on cooperation in support of the defense reform in Ukraine and reaching interoperability between the Armed Forces of Ukraine and the Allied countries.

Military cooperation with NATO in the year of 2007 found its practical manifestations in Ukraine's

participation in the "Active Endeavor" counter-terrorist operation in the Mediterranean and in "Cooperative Marlin 2007" Staff Exercise in Sevastopol.

## **5.4. THE REGIONAL STRATEGY OF UKRAINE**

### **5.4.1. Good Neighborhood for Common Goals**

In the conditions of globalization, regional cooperation has become a critical instrument for implementation of national interests, achievement of common goals and attainment of competitive advantages. Expansion of Ukraine's participation in regional cooperation is an important component of the nation's foreign policy. It is to be carried out in view of Ukraine's external priorities and strategic objectives, including, specifically, its European and Euro-Atlantic aspirations. Global development and security of the European and Euro-Atlantic nations are inseparably linked with the region located between the Baltic, Black and Caspian Seas.

The interests of Ukraine imply establishment of parity relations with the countries of the Baltic - Black Sea - Caspian Region on the basis of practical feasibility and mutual benefits, defusing of crises and conflicts, forming of effective mechanisms of interaction for purposes of security and stability, promotion of economic cooperation in the region (including, in particular, reliable energy transits), military and technical cooperation and protection of the environment.

In the framework of regional cooperation development, relations with the countries that border with Ukraine acquire a special significance. Ukraine's readiness to advance relations of partnership with all neighboring states constitutes a key factor for providing stability in the region and beyond.

Recent accession of Ukraine's closest neighbors to the European Union have created new prospects for this nation's regional cooperation. Ukraine shares historic experience and maintains economic ties with these countries, and people-to-people contacts are extensive. Countries of the region, including Ukraine, make visible progress, albeit with different pace, and this development coupled with the European experience creates the basis for configuring the future models of cooperation.

An important avenue of regional policy is cooperation in the format of Visegrad Group (Poland, Slovakia, the Czech Republic, and Hungary) initiatives, where these countries share with Ukraine their own European and Euro-Atlantic integration experience. A specific example of such joint effort is the development of cooperation aiming at application of these nations' experience in the defense industry reforms within the format of NATO partnership.

Inclusion of Ukraine's Western neighbors into the Schengen area is to lead to a more demanding visa regime, which will complicate the human dimension of bilateral ties. That is why Ukraine puts onto its agenda for relations with the neighboring states the need to maximally soften the visa procedures, particularly by means of cross-border cooperation instruments.

In the field of bilateral cooperation, relations between Ukraine and Poland furnish an example of efficient development of strategic partnership.

Poland is actively supporting the European and Euro-Atlantic aspirations of Ukraine and has consistently emphasized that the EU should take the interests of Ukraine into account. Active contacts take place at the levels of heads of states and governments, between local authorities and institutions of self-government, in the academic and artistic milieus. The people-to-people dimension of Ukrainian-Polish cooperation is of exceptional value, as the two sides have demonstrated true European attitudes to the assessment of the events of their tumultuous and even tragic common past. The dominant vision of Ukraine in Polish politics is that of a partner whose success means a great lot for the future of Poland.

Poland as a strategic partner of this nation is involved in multiple economic and nearly all energy projects of Ukraine. The project "A new level of good neighborhood relations - development of Polish-Ukrainian cross-border cooperation strategy" is now under implementation in the framework of cross-border ties.

Victorious bidding for the right to host 2012 European Football Championship finals became a true mutual accomplishment of the two nations. Preparations of Ukraine and Poland for this event will

allow attracting large foreign investments into the implementation of major infrastructure projects.

Ukraine's cooperation with Slovakia has been developing in a dynamic manner. In the framework of Euro-Atlantic integration process, much activity is conducted by the Embassy of Slovakia to Ukraine which in January 2007 received a two year status of NATO contact diplomatic mission. The key purpose of such activity is to promote the dialogue and create trust between Ukraine and the Alliance, support the discussion of security issues within the Ukrainian society, enhance democratic institutions and reforms in the security sector.

Bilateral cooperation is also growing in the economic domain, especially in the energy sector. Projects that pursue an increase of Ukrainian electric power exports to Slovakia and involvement of Slovakian partners in construction of energy facilities in the territory of Ukraine offer great promise.

The relations between Ukraine and Hungary develop dynamically in all spheres of the public policies and social life. In particular, trade and economic relations between the two countries are on a noticeable increase - their growth in 2007 reached 30 %. The defense ministries of both countries engage in active military and technical cooperation: 2007 saw the completion of the Cooperation Development Program between the two departments.

Ukraine is vigorously mounting its partnership with the Baltic states - Lithuania, Latvia and Estonia. Very importantly, these countries support Ukraine's European and Euro-Atlantic aspirations and commit to joint projects, including the ones in the energy sector that aim at integrating Ukraine into the European economic configuration.

Belarus is also an important partner of Ukraine in the region. Ukraine has consistently upheld democratic processes in this neighboring state. At the same time, international isolation of Belarus does not meet the interests of Ukraine. It is crucial to achieve resolution of the problematic issues in the bilateral relations and, by maintaining a distinct position within the EU's general approach to the state of human rights and democracy in Belarus, to ensure, as efficiently as seems possible, the implementation of objective mutual interests in the development of economic cooperation.

Arrangement of common borders and regulation of border crossing regimes together with acceleration of mutually beneficial cooperation, especially in diversification of oil and natural gas supplies and upgrading of energy funds, constitute essential elements for the establishment of a good neighborhood environment around Ukraine.

Romania is an important partner of Ukraine in the Black Sea Region. Cooperative ties between the two influential Black Sea nations in the frameworks of reciprocally beneficial projects will considerably strengthen the regional military, energy and economic security.

Presence of some complex issues within the bilateral relations does not erase Ukraine's interest in looking for the ways of improving the Ukrainian-Romanian relations. This interest is manifest in our country's participation in Romanian regional initiatives - specifically, in the Black Sea Forum, the regular summit meeting of which took place in Bucharest in June 2007. Another example is the all-European declaration "Common history - common memory" initiated by the President of Ukraine; in its context Ukraine intends to provide Romania with the lists of its nationals who perished in the territory of Ukraine between 1944 and 1954.

Cooperation with Turkey is most important in terms of implementation of Ukraine's national interests, especially in the security sphere. For instance, in 2007 Ukraine joined the "Black Sea Harmony" security initiative launched by Turkey. The two countries also develop their ties within the framework of NATO programs.

A valuable element of economic cooperation is bilateral joint efforts to carry out mutually beneficial projects, such as establishment and upgrading of international transport and energy transit corridors. One project of this kind is the building of Baku (Azerbaijan) - Tbilisi (Georgia) - Kars (Turkey) railroad and construction of the ring highway around the Black Sea (in the format of the Organization for Black Sea Economic Cooperation). Joint work in the implementation of European energy transit projects appears promising for creating guarantees of Ukraine's energy security and diversification of energy supply sources.

Ukraine's partnership with Georgia is developing dynamically. A special character of these bilateral relations first and foremost stems from the similarity of strategic foreign political objectives of the two states - in particular, European and Euro-Atlantic integration and pursuance of active regional policy of good neighborhood.

Implementation of joint projects in the sphere of transport is a meaningful component of economic cooperation. The already operational Illichivsk - Poti - Batumi ferry link (in the format of the EU's TRASECA project) will be augmented with the presently constructed Kerch - Poti ferry line that, when commissioned, will allow a 2.5 times increase in the total ferry transportation capacity between the two nations.

Georgia actively participates in the implementation of Caspian energy projects. Ukraine is interested in the implementation of GUEU project - a gas pumping pipeline along the Black Sea bed to link Georgia, Ukraine and the European Union. 2007 was the year of renewal of negotiations about this project, and its feasibility study is to arrive soon.

Cooperation in the GUAM framework acquires additional weight - especially in conjunction with implementation of the initiative to form a joint peace-keeping contingent for participation in peace support missions in own territories. In general, cooperation within international institutions as well as bilateral cooperation in the security area turn the relations between Ukraine and Georgia into a significant factor of regional stability.

#### **5.4.2. Ukraine's Regional Policy in the Black Sea Region**

The key directions of Ukraine's regional policy in the Black Sea area are as follows:

Development of partnership with the EU and search of new opportunities for European integration by means of active participation in the Black Sea policies of the European Union and support for implementation of the EU policy in the Asian direction;

Implementation of European and regional economic projects, especially in the transport field;

Implementation of the European and regional projects in the energy sector that aim at supporting the energy security of Ukraine, its regional partners and the EU as a whole; of special importance for Ukraine is diversification of primary fuel supply sources and development of new lines for transit of primary fuels across the Ukrainian territory;

Enhancement of Ukraine's role by deepening political, security and economic interaction in the frameworks of GUAM, OSCE and other regional organizations, and

More active involvement of Ukraine in the management of frozen conflicts.

To gain the position of leadership in the region, Ukraine has to demonstrate its responsibility for the regional stability and the capacity to act as a donor for the establishment of the regional security architecture. From this point of view it appears fundamental to participate in such initiatives as BLACKSEAFOR, "Black Sea Harmony", or the joint peacekeeping force for the Southern and Central Europe. Ukraine has been an active participant of all these initiatives; it joined the latter two in 2007.

Political stability and security in any region cannot be fully guaranteed when a number of frozen conflicts still smolder in the area. Ukraine has consistently and increasingly worked together with all stakeholders to resolve such conflicts in a peaceful way. In particular, Ukraine is taking direct part in the effort to defuse the Transdnistrian conflict by way of negotiations between Moldova and Transdnistria, with involvement of Ukraine, Russia, OSCE, the US and EU. The existing mechanisms of conflict regulation (namely, the UN Secretary General's Group of Friends and the Minsk Group) in Abkhazia, North Osetia and Nagorni Karabakh call for a thorough efficiency check. The position of Ukraine was reflected in the joint proposal submitted by GUAM members to OSCE for consideration. The proposal points out that all these conflicts should be regulated according to the Helsinki Final Act principles - sovereignty, territorial integrity and immunity of the internationally recognized borders.

In the course of implementation of its regional policy in the Baltic - Black Sea - Caspian region, Ukraine makes use of the mechanisms of the extensive institutional system including such regional

organizations as GUAM, CEI, OBSEC, Visegrad Group, Danube Commission, Council of the Baltic Sea States, and others.

In particular, it is worthwhile to note the positive dynamic and new specific content of Ukraine's regional policy in the frameworks of GUAM and OBSEC during 2007.

The establishment of GUAM Secretariat has really meant the completion of the formation of this organization as an influential institution. The success of energy summits in Poland and Lithuania propped up the importance and promise of the energy sector cooperation as a unifying regional factor. Besides passing specific decisions on energy projects the summits also featured meetings of heads of GUAM member states, which fostered a greater interest to the events on the part of other international partners. The second summit of this organization in Baku (June 2007) highly assessed the Ukrainian presidency during the first year after GUAM became formally institutionalized.

Strategic importance acquired by the Black Sea region for the EU means new opportunities for Ukraine. They may be carried out in the framework of Organization for Black Sea Economic Cooperation (OBSEC). November 1 was the beginning of Ukraine's six months presidency in this organization. Priorities of the Ukrainian presidency include:

Development of multilateral economic cooperation within OBSEC and establishment of the free trade zone in the Black Sea region;

Enhancement of project focus of the organization through implementation of projects and programs of regional significance (the Black Sea ring highway and sea communications) and development of new projects, especially in the energy sector;

Strengthening of cooperation between OBSEC and the EU by creating mechanisms of cooperation in specific industries, involvement of EU member states with observer status in OBSEC into practical activities of the Organization, preparation of the OBSEC - EU Ministerial;

Implementation of the mandate of the OBSEC 10th Anniversary Summit regarding the role of the organization in fostering security in the Black Sea region by means of "soft" security measures, and

Development of OBSEC's cooperation with other international organizations and regional initiatives.

#### **5.4.3. Crossroads in the Region as Opportunities for Ukraine**

A priority objective of Ukraine's regional policy is realization of its potential resting upon the geographical location of this country. National interests of Ukraine will first and foremost benefit from the development of transport routes through the nation's territory and its maritime and air space, and from the growth of transported cargo volumes. In this context the upgrading of transport infrastructure along the principal international transportation corridors in the Ukrainian territory remains a most important task.

2007 showed some new instances of attention to Ukraine's transport potential by the European Union. Specifically, Brussels has given a preliminary approval to the Latvian initiative of Kherson - Riga waterway. The effort to create a radial transportation corridor around the Black Sea is under way; this project is put into life within the framework of cooperation between countries that have membership in the Organization for Black Sea Economic Cooperation (OBSEC).

Growth of Ukraine's credibility as a key and reliable partner of the EU in primary fuel transit acquires special importance in terms of energy security of Ukraine and its European prospects. Therefore, the energy security of Ukraine will fit in with the European and Euro-Atlantic context.

In this conjunction much promise is seen in the project to create the Black Sea energy connector on the basis of multi-modal energy resource corridor from the Caspian Sea via Southern Caucasus and Ukraine to the EU. This project is strategically important for Ukraine and its neighbors in Central Europe (Poland, Slovakia, the Czech Republic and Hungary) as well as for Azerbaijan and Kazakhstan. The deployment of the Black Sea energy connector and its extension through the Black Sea region into the Baltic area also meets the interests of the Baltic countries.

2007 energy summits in Vilnius and Krakow became major steps in the practical implementation of

this project. One of the summits' results is the development of the Trans-Caspian gas transport line that is to become a component of Nabucco Project for pumping Asian gas to the EU.

The decisions of the energy summits gave existence to the full-fledged regulatory basis for implementation of Odessa - Brody - Plotsk - Gdansk project and launched the concept for the shaping of common Baltic - Black Sea - Caspian energy transit region. Another important accomplishment was Azerbaijan's statement of readiness to fill the pipeline with the required amounts of oil by 2009.

However, reaching the objective of diversification of energy supply sources and creation of an unfailing energy security system requires new opportunities for partnership with the countries of Central Asia that possess huge deposits of raw hydrocarbons and need reliable conduits for their transportation to the global markets.

## **5.5. UKRAINE – RUSSIA: SHAPING A NEW NATURE OF RELATIONS**

The strategic nature of Ukrainian-Russian relations rests on the principle of reciprocal recognition and respect of the sovereign right of each nation to pursue foreign and domestic policies in accordance with its own national interests and national development objectives, in compliance with the principles of equality and mutual benefits. This is embedded in the Treaty on Friendship, Cooperation and Partnership dated May 31, 1997.

The importance of Ukrainian-Russian relations from the point of view of Ukraine's national interests is explained by the following factors:

- Russia is playing an increasing role as a leading player in global politics. The Russian Federation plays an important role in resolving a number of complex regional issues, including Iran's nuclear program, stabilization in the Middle East, and the shaping of a new political and economic balance in the Eastern Asia.
- The Russian Federation is a key actor in the settlement of multiple global issues and elimination of apparent threats to global security and stability. Partnership ties with Russia constitute a fundamental prerequisite of stability all over Europe and correspond to the interest of the European nations, US, the European Union and NATO.
- The Russian Federation is a great continental power that owns strategic hydrocarbon resources and presently exercises a de facto control over the ways of their supply to Ukraine.
- High-speed economic growth started after the crisis of the 90ies and enabled Russia to create one of the world's largest economies while its growing internal market attracts multiple exporters who compete with each other to gain its access. The Ukrainian-Russian economic cooperation is one of the strategic components of Ukraine's foreign politics - in view of Russia's second, after the EU, place on the list of the largest trade partners of Ukraine.
- The nature of relations between Ukraine and Russia is one of the key elements of international relations in the European continent that largely impacts the geopolitical configuration and balance of forces between the European (EU, NATO) and Eurasian (with Russia as the dominant) centers of gravity.

In view of these considerations, the Ukrainian-Russian relations are a priority for Ukraine, both for the implementation of Ukraine's strategic course toward European and Euro-Atlantic integration and in the context of its economic interests.

At the same time a clear emphasis is to be put on the erroneous and groundless character of any attempts to confront the European course of Ukraine to the development of its ties with the RF. Stable cooperation with Russia is a necessary precondition for the implementation of Ukraine's European and Euro-Atlantic strategy, which envisages organic blending of the process of implementation of the European principles and standards with the enhancement of mutually beneficial Ukrainian-Russian cooperation.

Apart from reaching the aims of bilateral nature, such cooperation implies promotion of stronger all-European security and creation of an environment for large scale regional and trans-regional political, trade and economic collaboration.

In 2007 the President of Russia declared his nation's new look at foreign politics and security at the Munich security policy conference. Russia will develop equal partnerships when its European partners, and the United States will cease to "deter" Russia, agree with its special role in the FSU area, recognize some specific features of the Russian political system, and stop encouraging it to develop in line with the European principles of democracy.

In the light of such vision of its foreign political agenda, the Russian Federation criticizes the actions of European and Euro-Atlantic institutions, OSCE and NATO for the most part.

In 2007 the difference in security opinions between Russia, the European countries and the United States led to Russia's moratorium on participation in the Treaty on Conventional Armed Forces in Europe (TCAFE) and a return to strategic aircraft flights suspended back in 1992.

Suspension of Russia's participation in TCAFE deprived Ukraine of the possibility to obtain information and conduct inspection visits to military units that Russia can place in the immediate vicinity of the Ukrainian borders.

The most prominent subject of Ukrainian-Russian relations is retention of the pace of growth in bilateral economic cooperation and establishment of an effective political dialog to achieve a better understanding of the parties' real interests and intentions, to resolve practical issues of current cooperation, to preclude unwanted aggravation of a number of problems that require long term solutions, and to prevent emergence or enhancement of new issues, primarily in the humanitarian sphere, that might produce a negative effect on the entire range of Ukrainian-Russian relations.

In this context it is worth mentioning the signing of Ukraine-Russia Action Plan, improvements in the institutional mechanisms of bilateral cooperation, progress in the issue of temporary stationing of the Russian Black Sea Fleet in the territory of Ukraine, commencement of the effort on demarcation of the land borders, and continuation of delimitation of the maritime border between the two countries.

Regulation of the Ukrainian-Russian border demarcation and delimitation issue is important not only for the bilateral relations but also in the context of Ukraine's European aspirations. The completion of this process will create reliable protections against the movement of illegal migrants into the territory of Ukraine and increase mutual trust in the bilateral relations.

2006 and 2007 were the years of some progress in resolving consular issues. Yet, it remains crucial for Ukraine to take steps to neutralize potential negative effect of voluntary migration encouragement programs carried out by the Russian Federation. Moreover, the introduction of new Russian registration procedures for migrants may considerably complicate the conditions for Ukrainian nationals staying in the Russian territory.

One should also note the growth of trade and economic cooperation. The volume of trade between Ukraine and Russia is expected to exceed 30 billion USD at the end of 2007 (the turnover over the nine months of 2007 grew by 31.4 % as compared to 2006) which is the peak point in the entire history of bilateral trade. Ukraine cut down its negative trade balance by 1.5 billion USD.

In June 2007, Ukraine and Russia introduced the mechanisms for resolving problem issues in bilateral trade and economic ties, with account of the interests of both involved parties. Concretely, the two nations managed to find a mutually acceptable solution and to retain the Russian market for Ukrainian cold-rolled mill products by signing a relevant agreement in effect until mid-2010. The two countries also signed a similar long term agreement regulating supply of steel reinforcements without restrictive duty until 2011.

Enhancement of cooperation in the fuel and energy sphere was another extremely important factor in the development of mutual relations both with the Russian Federation and with the EU members is. So far Ukraine has retained the status of Russia's key provider of primary fuel transit services. Nonetheless, in 2007 Russia was actively promoting its projects of alternative oil and gas routes into the European countries (the North European gas pipeline, the "Blue Stream" and the "Southern Stream"). This means that Ukraine has to stay an attractive transit country for Russia and to fit its own transportation capacities into the general European context.

Russia insists that fuel supply be excluded from the domain of intergovernmental relations and hand-

ed over into the full competence of the traders. At the same time the Russian side represented by Gazprom is demonstrating an interest in managing the Ukrainian gas transit system.

Ukraine has to respond by developing, on the basis of available international and, above all, European experience, a transparent and predictable system of the public-private relations in the sphere of supply, transit and distribution of natural gas. This will guarantee protection of the national interests against the backdrop of ever growing energy fuel prices and vibrant competition for access to power sources.

2007 witnessed further development of the Ukrainian-Russian relations in the humanitarian sphere; however, those relations were marked by a certain asymmetry.

Russia implements such fundamental programs as the Program to support compatriots residing abroad (for 2006 - 2008), the Federal Target Program "Russian Language (2006 - 2010)" and the State Program to encouraging resettlement of compatriots living in other countries. In 2007, in order to popularize the Russian language and support Russian language curricula and studies abroad, the President of Russia signed an edict on establishment of the Russian World Foundation. Such programs aim at nurturing groups of people who live in other countries and are loyal to Russia. The Russian language and culture, and, importantly, the Russian interpretation of historic events and postures are to become the basis for such groups' consolidation and increasing influence.

At the same time, the level of satisfaction of the ethno-cultural, educational and information needs of the Ukrainian community in Russia remains very low. The work of Russia's only library of Ukrainian literature in Moscow is constantly accompanied by negative manifestations and conflicts.

The development of bilateral relations as a whole is negatively affected by such factors as:

- attempts to develop multilateral cooperation in the former Soviet space by subordinating the Ukrainian-Russian cooperation to such formats as CIS, SES and others;
- a permanent threat of "trade wars" caused by attempts to restrict access of Ukrainian commodities to the RF markets, which is unconvincingly camouflaged by economic or sanitary safety rationale, and
- attempts of certain Russian political forces to influence the internal political situation in Ukraine with active engagement of the Russian mass media in the Ukrainian territory focusing on the so called "language issue", "divide of Ukraine into the West and the East" and so on.

The listed factors hurdle full scale implementation of Ukraine's willingness to liberalize the bilateral trade, to secure free movement of capitals and services, to avoid ideological tinges in the relations between the two countries, and to ensure their enhancement in accordance with the fundamentals defined in the framework Treaty on Friendship, Cooperation and Partnership.

Using the existing potential of mutually beneficial cooperation between Ukraine and the Russian Federation to the utmost degree is possible only on condition of construing the bilateral ties on the basis of parity recognition of the value of sovereignties, respect for development choices made by the Ukrainian and Russian peoples, and attainment of common strategic objectives in those areas of international relations where the two countries can share interests.

## **5.6. UKRAINE - USA: DEVELOPMENT OF STRATEGIC PARTNERSHIP**

Ukraine develops its strategic partnership with the United States proceeding from a clear understanding of their key role played by the American super-power in the system of political, economic, scientific, technological, and military realities of the present world.

USA has traditionally given priority to global issues in its foreign politics. However, as a result of unfavorable developments in Iraq, the US capacity to exert global influence is decreasing. Even the nation whose defense budget for 2007 equaled the aggregate military budgets of all other countries fails to reach own objectives by way of unilateral use of force.

As a consequence, USA is modifying its foreign policies in favor of agreements and multilateral compromises in the matters of international security and stability. An example of such modification is

the US position on the issues of nuclear programs of North Korea and, more recently, of Iran.

The relations between the US and other powerful countries of the world - China, India, Russia - are becoming more pragmatic and reflect a search for avenues of implementation of the joint interests in the political and economic spheres.

2007 was marked by substantial enhancement of trans-Atlantic solidarity. Disappearance of the issue of any "axes" from the European diplomatic agenda resulted in considerable rapprochement of the US and EU members on multiple matters.

Grater closeness between the US and EU stances is creating a more favorable background for the European and Euro-Atlantic integration of Ukraine. Support of the EU enlargement policy evidently strengthened the US positions in Central and Eastern Europe in the community of new EU members and aspirants.

US allots a place of significance to Ukraine in its vision of the future of Europe.

Support of Ukraine's European and Euro-Atlantic aspirations unfolds in the context of broader American policies regarding Eastern Europe, the Former Soviet Union, the Black and Caspian Sea region and, specifically, those policies that have to do with the energy resources and routes of their supply. Support of Ukraine's integration into the EU and NATO is a component of Washington's general policy of promoting eastward expansion of these organizations. The US leaders believe that such changes in the system of trans-Atlantic relations conform to the interests of stability, security and development in Europe and worldwide.

In the recent years the American policy of closer relations with Ukraine has become more tangible in the area of strategic partnership enhancement. It would be important to identify the priority fields of cooperation for the coming years in the relevant "roadmap" for bilateral ties between Ukraine and the United States.

The US favorably views Ukrainian membership in NATO and is ready to support Ukraine's targeted efforts. Ukraine has joined the Intensified Dialog with the Alliance with active US support. The American Government has made public its position of supporting Ukraine's MAP intentions. In April 2007, the US legislature passed a law on support of the future membership in the Alliance for Ukraine and Georgia.

With the support of Washington, Ukraine has become a full-fledged member of CEE Committee of Defense Ministers which is a component of the Euro-Atlantic security system, and joined the SEE-BRIG force of this organization. In 2007 Kyiv successfully hosted a meeting of the Council.

The US strategic interest in support of Ukrainian independence and development of its democratic institutions constitute a permanent element of the Ukrainian-American ties. America hopes that successful democratic transformations in Ukraine will promote the expansion of the zone of democracy and stability in the world.

Thanks to restoration of an intensive dialogue at the topmost level and the readiness of Ukraine and the United States to pragmatically tackle the "acute issues" the following positive accomplishments became possible:

- US government cancelled trade sanctions regarding Ukrainian commodities;
- US renewed Ukrainian export privileges in accordance with the Generalized System of Preferences;
- US administration gave Ukraine a market economy status;
- Ukraine and US signed the bilateral Protocol on terms of access to the commodity and service markets in the framework of the negotiations on Ukraine's World Trade Organization accession, and
- the US Congress and President passed a decision to allocate a land plot in Washington where a memorial will be built to honor victims of the 1932-1933 Holodomor in Ukraine.

At present US is one of five largest (after Germany, Cyprus, Austria and the UK) foreign investors

into the Ukrainian economy; yet, in spite of the presence of a number of large American corporations the amount of investment does not yet reflect the investment potential of the world's greatest center of finance, i.e., the USA, or the modernization needs of Ukraine.

Whereas US has the greatest weight in the international financial institutions it appears most feasible to allot special importance to the use of its capacity for attracting additional resources into the economy of Ukraine and, at the same time, to abide by the obligatory requirement according to which cooperation in the financial sphere will take place on conditions acceptable for Ukraine.

The energy sector and the areas that are linked with Ukraine's integration into NATO will determine the agenda of Ukrainian-American relations in the short term perspective. Ukraine should be making more efficient use of the US potential for the future implementation of its NATO and EU integration policy and to strengthen the American vector of Ukraine's foreign politics.

## **5.7. THE ASIAN ROADWAY OF UKRAINIAN FOREIGN POLICY**

Ukraine will not be successful in the present globalized environment unless it takes into due account all the important tendencies and changes in the modern world. One of such tendencies is the strengthening of the role of Asia.

In 1940 Asia accounted for only 19 % of the total world produce, while its present share exceeds 40 percent. Experts estimate that Asia will have over 55 % of the global production in two decades.

Most probably by 2020 the People's Republic of China will turn into the Asian economic leader. Chinese economy is already the second in the world, leaving only the US ahead. Thanks to the ability to mobilize tremendous economic potentials, the Chinese nation (or, rather, civilization) will gain a huge weight in international politics. China's stupendous economic rise and the strengthening of older and younger South-East-Asian economic "tigers" will entail considerable changes in the global economic and political landscape.

India will get ahead of most European countries with regard to its economic volume in the coming decade, and the elimination of the caste division of the Indian society is bound to make the nation's economic development even more dynamic. Even today, the level of India's development makes it not only an Asian but a global leader. The world community has to accept India's achieved nuclear status. "The world's biggest democracy" aspires to permanent membership in the UN Security Council as a powerful player ensuring stability in the entire region of Southern Asia.

The Asian changes already exercise a large influence on the future development of humankind. For several centuries, modernization meant westernization. At present, quite a number of Asian countries are demonstrating the ability to reach high economic and social results remaining within the boundaries of their own civilization values and traditional cultures.

The premise that liberal democracy and free markets are best fit for the challenges of globalization is no longer indubitable in the Asian communities. At this time the efficiency of the European or Euro-Atlantic model has yet to be proved, and any pragmatic policy in the Asian direction should treat it as a fact.

The world's traditional "centers of power" have to consider the new realities. The Asian direction has become one of the most important ones in the strategic plans of the Trans-Atlantic community of nations and, accordingly, of the EU and NATO. In 2007 Russia spurred its effort to render the Shanghai Organization of Cooperation the role of a security alliance and not only an economic one.

Globalization is gradually acquiring more Asian traits. In this conjunction Ukraine is strongly interested in comprehensive development of its relations with the Asian nations, in cooperation for security and peace, and in mutually beneficial economic partnerships.

Priority goals of the Ukrainian foreign policy in the Asian region are as follows:

- to ensure peace and stability, specifically by eliminating long-standing international, inter-ethnic and inter-confessional conflicts that trigger political extremism and religious fundamentalism;

- to maintain the regime of non-proliferation of weapons of mass destruction and of the means of their delivery;
- to counter terrorist threats, trafficking in human beings, illegal trade in weapons and drug trafficking;
- to gain access to the energy resources and to partner with the countries of the region in fuels prospecting, production and supply to the world markets;
- to enhance Ukraine's economic presence in the regional markets that appear promising for sales of Ukrainian-made machines and rolled metal as well as for provision of research, technical and construction services in the military-technical and high-tech spheres, primarily aerospace-related;
- to benefit from the investment potential of the region, which is rapidly growing and spreading into many countries worldwide and should be made use of in the interests of the Ukrainian economic development.

In order to meet the national interests of Ukraine and in pursuance of decisions of the President of Ukraine, the effort of the Ukrainian diplomacy in the Asian direction concentrates on the Middle and Near East, the Caspian area, Central Asia and the Asian Pacific region.

Implementation of Ukraine's national interests in the Middle and Near East is complicated by the current political situation that shows all features of a crisis. It stems from the present dramatic choice between traditions and modernization that the Moslem communities have to make.

Over the recent years this crisis has noticeably intensified. One of the reasons was a rapid disappearance of the balance of forces inside the region. Iraq and Afghanistan as centers of tension and violence added to the background of the Arab-Israeli conflict, aflame for nearly six decades, and the lasting Lebanese crisis. The Kurdish issue also became more dramatic.

The possibility of Iran's obtainment of nuclear weapons constitutes the most serious global stability challenge. This occurrence will inevitably mean a new turn of the arms race throughout the region and may lead to a collapse of the entire global system of nuclear weapons non-proliferation.

In such environment the entire policy of Ukraine in the Middle and Near East should be geared at minimizing the effect of negative factors on the implementation of Ukraine's strategic interests. In particular, Ukraine expects to take part in the search for ways of resolving the most burning regional conflicts by peaceful political means and to cooperate and coordinate the efforts with other states involved in the process of guaranteeing peace and stability in the region.

The Ukrainian President's state visit to Israel on October 13-15, 2007, demonstrated Ukraine's readiness to support the settlement of the Israeli-Palestinian conflict and the shaping of a new security architecture in the Middle East area. The stance of Ukraine regarding the Middle East conflict settlement opens possibilities for developing reciprocally beneficial cooperation both with Israel and the Arab countries and for enhancing Ukrainian positions in the Middle and Near East.

The documents signed during the visit and the meetings held with the top leaders of Israel and Palestine lay solid foundations for Ukraine's further political, economic and humanitarian cooperation with these countries. Credibility that Ukraine enjoys in the region should foster favorable conditions for mutually beneficial economic cooperation with the countries of the Middle and Near East, first and foremost in the energy sector.

Another promising area is the initiative of conducting inter-governmental talks with Iraq and Turkey on arrangements for the oil transit corridor Kirkuk (Iraq) - Trabzon (Turkey) - "Pivdennyi" (Ukraine).

The development of new global energy balances and fuel supply routes augments the role played by the countries of the Caspian - Central Asian region (CCAR), with their 28 % of the world's prospected oil and almost 24 % of gas deposits.

Ukraine consumes and transits these countries' energy resources to the European states and has an interest in retaining this role in the future. This is the focal point of relevant efforts both within the

framework of partnerships with the nations of the region and in the implementation of Ukrainian policies in the European, American and Russian directions.

Comprehensive cooperation with Azerbaijan is strategically important for enhancing the position of Ukraine as the regional leader and pillaring its energy security. The mature and conspicuous role of the Ukrainian-Azerbaijani cooperation is primarily supported by the strengthening of Azerbaijan's positions in the region and worldwide. The nation has become a key country in the development of energy and transport passages from the East to the West and from Europe into the Central Asia via the Caucasus. Implementation of the European energy security project is impossible without active involvement on the part of Azerbaijan.

Ukraine's balanced position regarding the settlement of Nagorniy Karabakh conflict plays an important role in the development of the Ukrainian-Azerbaijani relations. Intense personal contacts between the Presidents of the two nations are equally important. Ukrainian-Azerbaijani cooperation has created the necessary preconditions for the shaping of the future Baltic - Black Sea - Caspian common energy space. The concept of its creation is to be discussed at the next summit in Kyiv in 2008.

In the implementation of its foreign political course, Ukraine takes into account the considerably growing weight of Kazakhstan in the formation of the new regional and international security system and creation of new energy transit corridors, regional institutions and associations. Already in the coming decade (by 2017) Kazakhstan is to move up into the top ten of hydrocarbon exporters and this progress will largely determine the nation's role in the system of global economic relations in the 21st century.

Upgrading of the Ukrainian-Kazakhstan cooperation to the level of strategic partnership will conform to the national interests of both countries. This kind of partnership is bound to essentially increase their roles in the formation of a new stage of relations between Europe and Central Asia, primarily in the development of a common energy space.

The visit of the President of Kazakhstan to Ukraine on February 1-2, 2007 played a significant role in the development of bilateral relations. This visit launched the Year of Kazakhstan in Ukraine. Ukraine-Kazakhstan Action Plan for 2007-2008 was signed during the visit aiming at implementation of specific joint projects in the energy, transport, agrarian and aerospace domains.

Turkmenistan has traditionally been Ukraine's important partner in Central Asia. Ukraine pays tribute to the Central-Asian country's growing role in the international arena, it understands the Turkmen desire to develop sovereign domestic and foreign politics and build upon the available experience of mutually beneficial economic cooperation, especially in the oil and gas realms.

Turkmenistan's new leadership demonstrated its intention to widen the range of international cooperation pursuits, and this urges to look for new initiatives in the bilateral ties. The importance of developing such initiatives will increase in view of the forthcoming expiration of arrangements that presently regulate Turkmen gas exports. From this perspective the reached agreement on a visit of the President of Turkmenistan to Kyiv seems most important.

In the development of Ukraine's operation with the countries of Asian Pacific region (APR) it is crucial to recognize its role as a potential "prime mover" of the global economy. Ukraine is interested in fostering reciprocally beneficial relations with APR nations and, first of all, with the universally renown leaders - China, Japan and South Korea.

Stable economic growth of the APR countries means emergence of vast opportunities for Ukraine's trade development, attraction of investment resources, cooperation in the military-technical sphere and in the domain of high technologies.

In this regard the absolute need to develop a strategy of Ukraine's relations with APR countries moves into the foreground. Such strategy is to take into full consideration the present-day political and economic integration processes inside the region and the emergence of a new system of balance of forces in the strategic Asian Pacific area.

China is the greatest foreign trade partner of Ukraine amidst APR nations. In 2006 the turnover of bilateral trade exceeded 4 billion USD. Political cooperation actively developed throughout 2007,

which was in line with the tendencies of China's dynamic growth and advance into leading positions in the global economy and politics. The 17th Congress of the Communist Party of China stated in October 2007 that China will increase its GDP four times by 2020.

Ukraine has the chances to become an investment-attractive partner for China, especially in the space rocket, aviation, ship-building and energy sectors. Further progress in these areas may be effectively supplemented by expansion of collaboration into the areas of high technologies, consumer cooperation, sciences, and technical research.

Ukraine allots much importance to such areas of cooperation as innovational development, energy efficiency, and energy saving. In view of China's permanent search for the EU markets, the transit routes through the territory of Ukraine can mean joint infrastructure and transportation projects.

Realization of the Ukrainian-Chinese cooperation potential would undoubtedly benefit from more intensive contacts at the level of national leaders.

In the development of relations with Japan, Ukraine has to bear in mind and efficiently respond to those changes in Japan's foreign political doctrine that create more favorable opportunities for raising bilateral ties onto a qualitatively higher level. The Japanese present doctrine "Arc of Freedom and Prosperity" names Ukraine an important partner for Japan in Europe, with shared democratic principles and values, that is to become an influential ally of Japan in the enhancement of its positions over the world.

At the present stage Ukraine and Japan can pursue cooperation in the following areas:

- in the political sphere - cooperation in the prevention and settlement of international conflicts, combating international terrorism, non-proliferation of nuclear weapons and so on;
- in the economic sphere - cooperation for diversification of sources, routes and means of transportation of energy resources, establishment of a reliable system of global energy security, and development of nuclear power generation;
- in the investment sphere - attraction of Japanese investments, namely in the format of the Official support for development purposes, into enhancement of transport corridors through the Ukrainian territory.

The development of all-round cooperation with Japan with account of the potentials of the two nations will allow Ukraine to augment its role in the system of mutual relations between the European and Asian countries.

President Yushchenko's official visit to the Republic of Korea (December 17-19, 2006) gave a strong impetus to a new rise in the bilateral relations. This visit featured discussions about the prospects for further Ukrainian-Korean cooperation in the areas of trade, economics, investment, military and technical ties, space industry, transport, humanitarian policies, education and culture. Incessant increase of trade turnover also furnishes evidence to the sustainable development of Ukraine's relations with Korea. In particular, the volume of trade in the first half of 2007 was already 1.4 times higher than that of 2006.

Ample use of the potential of cooperation in the Asian direction makes Ukraine's foreign politics more pragmatic and balanced and at the same time opens up the opportunities for joining new global and trans-Eurasian security, economic and energy projects.

Intensification of Ukrainian foreign policy efforts in the Asian direction corresponds to the new realities of the worldwide development and is to ensure appropriate participation of Ukraine in the modern globalization processes for the purpose of implementation of the country's national interests.

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The strategic course toward European integration is the imperative for Ukraine's domestic and foreign politics. The society features a rather stable consensus regarding the nation's European integration strategy, although the national political forces express different views as to the speed, steps and measures of such integration.

With regard to the Euro-Atlantic integration, the Ukrainian political developments have recently demonstrated multiple instances where the subject was used as an instrument of pre-election campaigning. A number of influential political players refrain from systemic work of developing realistic security policies and restrict themselves to reiteration of obsolete perceptions and overt ideological phraseology. In 2006 and 2007, such "partisan" foreign policies in the sphere of national security slowed down the accomplishment of Ukraine's strategic objectives defined in the legislation that was adopted in the preceding years.

Responsibility for the nation's fate, its sovereignty, and a fitting role in the present world urges the Ukrainian political circles to consolidate their efforts around the country's strategic objectives and priority foreign political tasks.

The specific aims include the following:

1. Development and adoption of the law "On Principal Directions of Foreign Politics and Foreign Political Activity of Ukraine", which, in particular, would

a) identify the national interests of Ukraine in view of the present global realities and the needs of internal development;

b) determine the fundamentals, key directions and priorities of the nation's foreign policy, with a specific emphasis to EU integration and accession to the Euro-Atlantic security system as priority strategic objectives;

c) outline the system of functions and mechanisms of the implementation of foreign policies (and, explicitly, assign coordination of action of the executive authorities in the sphere of foreign policy to the Ministry of Foreign Affairs).

Adoption of such law presents a fairly complex task, especially in the context of the attempts of some political forces to review the already legitimate fundamentals of the national foreign policy. Demonstration of the political forces' willingness to meet the national interest is a must for emergence of new opportunities for Ukraine.

2. Immediate approval of legislation on the single line of control and administration in the sector of foreign policy and national security.

3. Development of the reviewed "Strategy of Ukraine's Integration to the European Union" with account of the present status of cooperation with the EU, outcomes of implementation of the EU-Ukraine Action Plan, domestic institutional and structural changes, and the prospects of a new enhanced agreement with the EU and of establishment of the free trade zone.

4. Development of legal instruments for relations with the EU.

In particular, protection of the rights and interests of Ukrainian nationals calls for development and submittal of proposals for an agreement on a streamlined procedure of visa issuance to cover a wider range of Ukrainian citizens, and a clear indication in the new agreement of the prospects for full abolition of visas, with a list of criteria and means for achieving this goal. At the same time Ukraine needs to hold talks with the EU on greater financial assistance for countering illegal migration (arrangements on holding facilities for illegal migrants, deportation procedures and so on), to consider the matter of establishment of the State Migration Service, and to begin negotiations with the EU on eventual establishment of common consular offices of the Schengen countries in order to apply uniform procedures and requirements for Ukrainian nationals.

Ensure implementation of the reviewed Action Plan in the sphere of justice, freedom and security, adopted by the Council for EU-Ukraine Cooperation on June 18, 2007, and its Implementation Schedule;

Upon completion of the formal procedure of WTO accession immediately begin official negotiations on establishment of the free trade zone with the EU.

In the framework of implementation of the "Energy Policy of Europe" Plan of Action for 2007-2009, Ukraine has to initiate talks with the European Union on accession to the agreement on energy coop-

eration in order to integrate into the internal European energy market.

The interests of Ukraine require secure and ample conditions for implementation of the package of priority investment projects in the fuel and energy sector within the framework of Ukraine's cooperation with the EBRD and European Investment Bank. These projects aim at upgrading Ukraine's oil and gas transit system, providing greater reliability to the energy system's operation and so forth.

5. Actions to join NATO Membership Action Plan format and ensure its implementation. Development of draft NATO Membership Action Plan by the time of NATO Bucharest Summit (April 2008), allocating the relevant 2008 budget funds for its implementation.

The priority task is to approve and properly fund the National Programs of Public Awareness of Matters of the European and Euro-Atlantic Integration of Ukraine (for 2008 - 2011) and provide training, re-training and advanced training of experts in the sphere of Ukraine's European and Euro-Atlantic integration (2008-2011).

6. It is necessary to develop and gradually implement the medium term plan to settle controversial issues in relations with the Russian Federation. For this purpose it would be feasible:

a) to speed up the process of negotiations regarding delimitation of the Azov-Kerch maritime area;

b) to resolve the issue of mitigation of consequences of the Kerch Strait environmental disaster, with compensation of damages to the Ukrainian side;

c) to launch the work of a joint commission on demarcation of the ground state border between Ukraine and the RF;

d) to develop a mutually beneficial settlement of the yet unregulated issues related to the Russian Black Sea Fleet bases in Crimea; to sign an agreement regarding the jurisdiction of operation of the military and law enforcement units of the Russian Black Sea Fleet, and reach an agreement on the procedures for use of the navigation and hydrographic infrastructure components;

e) to resolve, on the basis of bilateral arrangements, the financial and property issues and intellectual property matters related to RF's exit from the Antonov-70 military cargo aircraft project.

7. It is crucial to develop regional cooperation and to establish positions of regional leadership for Ukraine. For this purpose it is necessary:

a) to approve the Concept of Ukraine's activity within CIS, with clear indications of the level of participation in the Commonwealth institutions, the nature, forms and areas of cooperation with CIS; to develop bilateral cooperation with CIS member states in the areas of mutual interest; promote implementation of Ukrainian proposals in the energy sector, improvements in operation of the free trade zones, and regulatory legalization of borders;

b) to prepare the implementation of the package of sectoral and infrastructure projects in the frameworks of GUAM and OBSEC which seek development of common markets for goods and services; to take, in particular, the necessary measures for applying through transportation tariffs for TRASE-CA transport corridor use, for faster commissioning of the Kerch - Poti - Batumi rail and ferry link, and for construction of Kars - Akhalkalaki railway, and to create the conditions for implementation of the "Danubian Energy Transit Bridge" project, etc.;

c) to accomplish ratification of the Charter of GUAM Organization for Democracy and Economic Development by the Verkhovna Rada of Ukraine and to create favorable financial and material conditions for full-scale operation of GUAM Secretariat in Kyiv;

d) to continue negotiations on settlement of the Transdnistrian issue on the basis of the Ukrainian peaceful regulation plan.

Consistent efforts of Ukraine toward economic and political reforms and this country's rapprochement to the European political, economic and legal standards will allow, even in the short term perspective, to raise the matter of Ukraine's membership in NATO and the EU and to receive positive responses.



Ukraine:  
**processes, results,**  
prospects.

Ukraine:  
processes, results,

**prospects.**

**SOCIAL AND CULTURAL FACTORS  
IN STRENGTHENING UKRAINE'S  
NATIONAL UNITY**

Ukraine: processes, results,  
**Prospects.**

## **6.1. UKRAINIAN NATIONAL IDENTITY: ITS COMPONENTS AND DYNAMICS OF GROWTH**

The establishment of the Ukrainian political nation as a part of the modern-day European community is directly linked with the active, complicated, and, at times, controversial process of forming national identity. It is possible to find an adequate response to challenges to the unity and consolidation of the Ukraine society as an integral democratic political body if one has a profound understanding of this process.

The Soviet ideology purposefully imposed a negative attitude to the concept of "a nation." In its attempts to preserve the imperial character of the Soviet state, the Soviet government, for all intents and purposes, rejected the Marxist idea "of the right of every nation for self determination up to secession from the Union." This contradiction in the Soviet theory and practice has been convincingly exposed in Ivan Dzyuba's work *Internatsionalizm chy rusifikatsiya* (Internationalism of Russification).

The Soviet ideology treated society as a people - that is, a homogeneous mass of working people who stand opposed to the bourgeoisie, and to a certain extent, to "the social stratum of intelligentsia." Such an approach is imbedded in the Russian intellectual tradition. Its genesis has been well described by Berdyaev in his *Origins of Russian Communism*.

The Soviet totalitarian state maintained the quasi-homogeneity of the Soviet people through state-promoted coercion. Such concepts as "nation" and "national" were downgraded to be used only in the context of ethnicity. For example, Ukrainian culture was treated as "socialist in its content and national in its form."

The fact that the Soviet terminology continues to be used in the political parlance of the independent Ukraine, that such concepts as "Ukrainian nation," "Ukrainian culture," and "Ukrainian identity" are used only in the ethnicity-related contexts, is a very serious obstacle on the way to the formation of the Ukrainian political nation.

The European choice of Ukraine, its joining the European community must be based on present-day approaches to the formation of the Ukrainian nation which is united in a broad political rather than in a narrow ethnicity-related context.

The most essential feature of present-day nations is their national identity when the people of a nation identify themselves with a certain community, its symbols, values, history, territory, culture, state and juridical institutions, political and economic interests. It should be pointed out here that acceptance of such identity takes place not only on the rational or intellectual level alone, but on the emotional, semantic and mythological levels as well.

In people's mind, the national identity legitimizes the state, its control over the territory and natural resources, and rights and responsibilities of its citizens. It is thanks to the national identity that the very phenomenon of a modern national state has emerged.

National identity plays a very important role in the establishment and consolidation of democracy. Acting on the principle "friend or foe," it determines the essence of a community which is the main source of power, and establishes the principle that it is the majority that makes decisions while the minority enjoys its guaranteed rights. Democracy cannot exist outside the political nation. In each individual country democracy has its own national characteristics.

The vital role of national identity, from the point of view of legitimacy and democracy, requires that the Ukrainian state, which owes its existence to the self-determination of the Ukrainian nation, ensures its support and further development. Ukraine's future depends on the pace at which the Ukrainian national identity is being established. This goal should be achieved through the joint efforts of the state and society.

The strength and quality of the national identity play a decisive role not only at critical moments in history when the nation has to mobilize its forces to deal with an external threat or an internal crisis. The events of the past few years have shown that the importance of national identity grows under the conditions of globalization and tough competition among the states with different economic and

social systems. National identity causes citizens and societies to perceive their national interests; it established trust in the state and its institutions, solidarity with other members of the community, and, consequently, an ability to interact with them in order to achieve socially significant goals. The examples of China and of some countries of Central and Eastern Europe strongly suggest that the developed national identity is a weighty advantage in the competitive world of today.

Unfortunately, long centuries of statelessness have taught Ukrainians to look at themselves with "the eyes of foreigners", to assess themselves in the categories of "foreign" identities. Two contradictory images of the Ukrainian nation continue to coexist, each putting demands on the consciousness of Ukraine's citizens.

The first image, which was formed under the impact of colonial circumstances and is now grossly outdated, is one that is confined within the limits of the notion of a "non-historical" community, whose culture is based only on the local experience and cannot aspire to explore the universals of human existence.

The political projection of such an image demonstrates a low level of trust in all the state institutions, low level of citizen activity and of solidarity, unwillingness of a certain part of the population to defend their country in case of a hypothetical external threat.

There is, however, the other, present-day image of the Ukrainian nation. Millions of Ukrainian citizens are proud of belonging to the Ukrainian political nation which is regarded as a modern, European nation. Their Ukrainianness is characterized by striving for freedom, pronounced "republican" principles, rejection of any despotism, respect for sufficient individualism, allegiance to traditional values and at the same tolerance, openness to the modern world, readiness to accept what can be described as things that are "other" than their own and "different."

Ukraine's success as a state and a nation depends on the establishment of such a democratic identity. Its European character is able to overcome the imperial-totalitarian elements in the Ukrainian public consciousness, modernize Ukraine, and guarantee that Ukraine takes a place it deserves among the European states and nations. With the support provided by the state, Ukrainian society must develop its own values, symbols and meanings, to create, to use Lina Kostenko's words, "the humanitarian aura", in which Ukrainian citizens would be able to reflect about themselves, their country and the world around them.

National identity is based on the citizens' pride in their country and their faith in its future. In 2003, only one third of respondents in public opinion polls were of the opinion that happiness in life depended not only on one's well-being but also on taking pride in one's country. As of this date, about two thirds of respondents declared that they took pride, to a greater or lesser extent, in being citizens of Ukraine. However, it would be premature to state that such changes in Ukraine's public mentality have been firmly established.

In early 2006, results of a public opinion poll conducted by the Razumkov Center, showed that only 37 percent of the respondents believed that Ukraine would become a highly developed, democratic and influential European state; 23 percent of the respondents expressed the opinion that Ukraine would become an underdeveloped satellite either of Russia or of the West, or it would a third-world country, or would cease to exist as an independent state. 23 percent could not give a definite answer, and 14 percent inclined to think that Ukraine had its own "special way" of development.

In the assessment of the level of national identity, neither the name nor territory of Ukraine evoked any doubts or negative reaction for the majority of respondents in opinion polls.

At the same time, the issue of Ukraine's territory is somewhat controversial. There definitely is a problem of Crimean separatism; practically no measures are taken in the Crimea to curb the activities of anti-Ukrainian organizations, including those that are supported and instigated from abroad. In the east of Ukraine we find a "transparent" border with no definite demarcation and not properly protected. This circumstance generates problems of various kinds that are connected not only with illegal border crossings and criminal activities. In public consciousness, such "transparent" border reflects upon the sovereignty of Ukraine, belittles the state's authority in the eyes of Ukrainian citizens and of the world community, and thus in no way encourages the Ukrainian national identity.

National identity provides a basis for the institution of citizenship with all the rights and responsibilities it entails, and legitimizes it in the eyes of individual citizens. However, a local, native place identity remains a wide-spread phenomenon in Ukraine, and, according to public opinion polls, in some cases such local identity takes precedence over the national identity. During the years of Ukraine's independence, public opinion polls showed that there was a considerable reduction in the number of those who identified themselves with Russia (down to 1.5 percent), and with the Soviet Union (down to 3 percent).

Predominance of local identities over national identity among a considerable number of Ukrainian citizens turns out to be a significant challenge in the present Ukrainian situation. Political manipulation can create a threat to the integrity of the all-Ukraine identity which can be undermined by counterpoising it against regional identities. Unfortunately, attempts continue to be made to hype "regional histories," to proclaim religious organizations as being specifically "regional," to give certain languages a regional status. In this manner, irresponsible political forces open the way to language, cultural, ethnic, religious and regional confrontations. The state and the society should correctly assess possible consequences of such erosion of national solidarity, of undermining legitimacy of the state institutions, which, consequently, can make impossible the consolidation of the Ukrainian political nation for the sake of modernizing Ukraine.

Achieving national goals becomes difficult under conditions when a certain part of Ukrainian citizens feel more connected to their across-the-border neighbors rather than to their own fellow citizens in other regions of Ukraine. According to a public opinion poll conducted by the Razumkov Center in 2007, a considerable part of people living in southern and eastern Ukraine consider themselves to be closer in habits, customs, traditions and character to inhabitants of Russia rather than to their fellow citizens who live in western and central Ukraine.

The present-day situation, if it is not properly dealt with by employing means of state policies, is fraught with potential danger for the unity and integrity of Ukraine, and opens ways for foreign influences and interferences.

As far as checking the levels of Ukrainian identity is concerned, in the situation of considerable ethnic and cultural diversity it is of a paramount importance to develop its civil ingredient, therefore sharing the rights, responsibilities and economic interests should be clearly understood.

Sociological surveys indicate that such understanding of national identity has good prospects for the future. Among the five factors that have a potential to consolidate the people of Ukraine into one unified community the greatest number of the respondents (33 percent) chose "the striving for a significant boost in well-being of all the citizens"; 28 percent of those polled said this factor was "equal rights and coexistence within one state"; 12 percent pointed to "common political principles and ideas." At the same time, only 11 percent of the respondents embraced "common Eastern Slavic cultural and historical heritage" as a potential unifying factor.

Ukraine has to form such "pragmatic" identity without having passed in a proper way through the "romantic" stage which was a characteristic feature in the history of many European nations in the nineteenth and early twentieth century. To a certain extent, it complicates the task that arises before the Ukrainian political and cultural elites, but, at the same time, it makes it possible to use the example of the European experience.

The independent Ukraine has already made a number of steps in this direction. From the very start, Ukrainian citizenship was granted to all those who lived in Ukraine's territory. Later, the Ukrainian Constitution defined "the Ukrainian people" as a political community of citizens of all ethnic backgrounds who live in Ukraine.

Building up of a political nation means that citizens should associate themselves with certain state institutions. In order for such an association to take root, the state authorities at all the levels should be effectively fulfilling its social function - they should provide for the equality of all citizens before the law and thus gain prestige and respect, and acquire in the process a certain symbolic (rather than purely utilitarian) significance. However, it must be admitted that the Ukrainian realities of government administration do not always contribute to the establishment of national identity.

Lawlessness, corruption, huge differences in material status of various strata of population, selective application of laws are not at all conducive to the formation of a civil identity. The other way round, the lack of "the rules of the game" which are equal for everybody, and insufficient authority of the state as an arbiter recognized by all, create distrust among citizens, ethnic, cultural and other groups of the population, and among the regions of Ukraine. Quiet a few concepts, principles, and key instruments which are necessary for the formation of democratic identity have not been used, or have even been compromised. It concerns, ahead of anything else, such concepts as patriotism, honesty and morality of politicians, supremacy of law, justice at the courts of law, market economy transformations, political reforms, and so on.

According to public opinion polls, only 16 percent of respondents believe that they are "masters" of their country, and 76 percent of them do not feel they are. Only 19 percent believe they can realize their social prospects in Ukraine, and 69 percent do not feel they have such prospects in Ukraine.

This situation creates favorable conditions for politically motivated speculations that concern the dominant position of certain political, social or ethnic groups. For example, people who live in the East of Ukraine are increasingly exposed to unsubstantiated statements about "Ukrainian nationalists capturing power in Kyiv." In the West of Ukraine, statements are made to the effect that former and present communist top officials and regional tycoons have seized the levers of power.

In a country that is politically and economically divided, its citizens get a feeling that democracy and law are not objective, socially significant values. They are perceived as subjective interpretations, voluntaristic decisions taken in the interests of a competitive group that controls, at a particular time, state or court institutions.

That is why the development of the civil ingredient of national identity requires, ahead of anything else, effective conduct of economic and social policies. It is very important that the government actions correspond to the value orientations of the people, coincide with their understanding of justice and solidarity which are engraved on the collective consciousness.

From the point of view of "constructing" political identity, the state should be continually conducting a dialogue with society as a whole and with the interested parties. Its task is to support by its actions and decisions the concept that the Ukrainian state effectively represents and protects economic, social and political interests of the whole nation rather than of individual political forces, groupings, or regions.

In order to have a national consensus established, Ukrainians must be convinced that their own national state alone can successfully meet the complex challenges of the globalized world. Powerful cultural and information policies are needed to clearly explain to the people what Ukrainian interests are at the international arena, what the advantages are of joining the European and North Atlantic community.

World experience demonstrates that present-day nation-states are built not only on the foundation of "social contract", that is, thanks only to the "pragmatic" context of national identity. History and culture are no less important factors of national identity. For the Ukrainian nation which, because of the historical circumstances, was being formed for a long time as a "cultural" nation (Kulturnation) rather than a "state" nation (Staatnation), history and culture are extremely important components of national identity.

Any more or less successful political nation has its own ethnic, language and cultural core, even when it is formed as "a melting pot" like the American nation was. Setting the political, ethnic and cultural components of national identity one against the other is artificial since all the present-day European nations maintain and preserve all these components in equal measure.

Cultural ingredients are especially important for Ukraine, particularly now, with insufficient effectiveness of state institutions, immature political traditions, and weakness of social practices. Under such conditions, the cultural components of the Ukrainian national identity can strengthen stability in the country.

Such cultural components are historical memory, values, symbols, traditions, and practices connected with them. The collective memory preserves models of patriotic behavior and noble civility, images of national heroes and their heroic deeds, exemplars of justice, mental and symbolic maps of

Ukraine, national relics, customs, rituals and genealogies.

The perception of the Ukrainian national history with an emphasis put on the heroic effort and sacrifice in the struggle for independence of the native land and freedom of its people is an extremely important groundwork for developing national identity which is of a particular importance for Ukraine that has regained her sovereignty fairly recently.

According to P. Riker, "It is impossible to imagine a community which would not celebrate, with a lesser or greater degree of participation by its members, its coming into the world. In this way this community bridges the gap between the initial myth and the incompleteness of the collective memory."

Only at a later stage of development, the cultural roots of national identity are understood from pragmatically economic, political and legal points of view. In relation to the European experience, this vector of forming a political nation is the best suited for Ukraine.

Because of the weakness of the civil component of Ukrainian identity, it is dangerous to underestimate the factor of consolidation around the cultural core. There is yet another danger. If the language and ethnic component is given universality which is foreign to it, it can provoke opposition on the part of a certain number of the Ukrainian citizens, and even lead to social confrontations. The development of national identity requires that a delicate balance be found in state policies between a certain measure of priority given to the Ukrainian ethnic culture and an effective support given to the cultures of ethnic minorities.

Priority that is to be given to the Ukrainian ethnic culture is based on two arguments.

Firstly, it lies in the very logic of emergence and existence of the state of Ukraine. It is described in the Constitution of Ukraine as resulting from the right for self-determination which was exercised by the entire Ukrainian people. Thus, the Ukrainian ethnic component is defined as a consolidating core of the Ukrainian political nation and state.

The results of sociological surveys show that such a correlation of ethical, cultural and political components of the Ukrainianness is acceptable to the Ukrainian society. The European and world experience confirms it.

Secondly, effective protectionist measures are required to be taken in order to overcome the consequences of a long period of assimilation of ethnic Ukrainians in the times of the Russian Empire and of the Soviet Union. At the same time, the state must conduct policies of supporting cultures of ethnic minorities and fostering in the citizen consciousness a conceptual acceptance of Ukrainian culture as a culture of all the ethnic groups that live in Ukraine.

According to the results of a sociological survey conducted by the Razumkov Center in 2007, 58 percent of the respondents identified themselves primarily with the Ukrainian cultural tradition; 19 percent identified themselves with the Soviet cultural tradition; 10 percent - with the Russian cultural tradition, and 6 percent - with the European cultural tradition. 35 percent of the respondents in the same survey stated that they wanted to read books by foreign authors translated into Russian; the rest wanted to read such books translated into Ukrainian, or Russian. About half of the Russian-speaking readers are the people who consider themselves followers of the Russian or Soviet traditions.

These results suggest a conclusion that the Ukrainian-language and Russian-language culture products could constitute a ratio of two thirds to one third at the Ukrainian market. However, the changes in such ratio in favor of Ukrainian culture are proceeding at a slow pace, and in some spheres the reverse process is observed.

The gradual disappearance of Soviet identity that was caused by historical circumstances has not resulted in automatic widening of the sphere of Ukrainian culture. In political practices, Soviet identity is transformed into the ideology of the "unity of Slavic peoples", "protection of Orthodox Christianity", "opposition to western dictate," and so on. In culture, Soviet identity is preoccupied with strengthening of the competitiveness of Ukrainian cultural products against Russian cultural products.

At present, cultural products of Russian origin dominate the Ukrainian market, and such domination

is to the detriment of the economic interests of Ukraine. Growth of its volumes indicates gradual establishment of a foreign control over highly profitable sectors of the economy - media market, book publishing, film making and distribution. Deficiencies of state policies in the cultural sphere, opaqueness of the property structures, and spread of the "shadow" market in these sectors do not make it possible to assess in full measure the level of this foreign control.

The Ukrainian state does not in any way limit the presence of foreign mass media in the Ukrainian information space; these media purposefully and aggressively erode the Ukrainian national identity, solidarity, and patriotism of Ukrainian citizens.

In order to pursue national cultural policies effectively, one important thing should be taken into consideration - the great Russian culture that a considerable part of Ukrainian society considers to be its own developed under conditions of the Russian Empire. Not all of its exponents were on a level as high as that of Gerzen or Sakharov, and that is why the discourse of that culture contains imperial myths.

Deconstruction of these myths takes time, and while the process of deconstruction is under way, the quantitatively dominant presence of Russian culture in Ukraine acquires a qualitative character, recreating postulates of the Russian imperial and Soviet totalitarian ideologies in the consciousness of Ukraine's citizens. The basic features of these ideologies are: state interests over human rights; indivisibility of Slavic identity; historically formed dominance of the imperial metropolis over the provinces, etc.

Certain political forces in Ukraine and beyond its borders claim that the Ukrainian public and civic initiatives that try to put an end to that imperial legacy, are "an attack on everything Russian." That is why Ukrainian state policies should make very clear the sense of protection of the Ukrainian political identity in the information and cultural space, and what the provisions for meeting the cultural needs of the Russian-speaking section of the Ukrainian community are. A well-substantiated social dialogue, stage-by-stage and well-balanced approach, and recourse to the European experience are required to find solutions to these problems.

In any case, Ukrainian national cultural policies must not be limited only to curbing "Russian cultural imports." Such curbing is of little effect and gives a pretext for political speculations, and is easily discredited by biased coverage in the media. Ukraine's efforts must be directed at carrying out cultural policies on a strictly legal basis, at doing away with monopoly in this sphere, at restraining the political influence of the imported cultural products on the public consciousness, and at battling contraband and "pirating."

All-inclusive and comprehensive support of Ukrainian culture producers through privileges in taxation, media promotion, massive purchases of books, periodicals and video films for libraries, active support of international projects with the participation of Ukrainian performers and artists can provide other ways of dealing with the problem. Such support must not be limited to the Ukrainian-language cultural products only. The Ukrainian state can and must convincingly show to various ethnic and cultural groups of Ukraine that they share cultural interests common to all, and that the Ukrainian state is prepared to protect these interests in the face of globalization challenges.

The existence of English-speaking and French-speaking cultures in Canada under constant and heavy pressure exercised by US cultural products can be looked upon as a good example of partnership rather than antagonism between different ethnic cultures. For the future of Ukraine it is very important to understand that Ukrainian culture can be a unifying factor for all the ethnic groups of Ukraine as a culture of the entire Ukrainian political nation. The Russian-speaking component of the national culture must be looked upon as a constituent part rather than substitute or competitor for Ukrainian-language culture.

Instead of struggle or confrontation of cultures we should be dealing with the contest of values which in many instances are actually incompatible. Ukrainian, Russian, and all of the ethnic minority cultures of Ukraine can be united in the culture of a political nation. It does not mean however that values which are democratic and totalitarian, progressively modern and retrogressively backward, pro-Ukrainian and anti-Ukrainian can be united within one frame of reference. Artificial attempts at bringing them together do nothing but hamper the formation of the Ukrainian democratic identity.

From the point of view of future development, an assiduous attention in pursuing Ukrainian state policies must be given to present-day forms of culture, and to youth subcultures in particular. It must be done not as a counterbalance to traditions, classical and folk cultures, but as a way of maintaining continuity, of introducing cultural innovations. Ukrainian culture should not be "an ethnographic museum" - it should be a competitive phenomenon that has a future and is accepted and developed by the Ukrainians. It is only this kind of culture that citizens will be able to identify themselves with, and only this culture will become a potent component of national identity.

Consequently, ensuring the unity of Ukraine and guaranteeing its social stability require that the process of forming the present-day Ukrainian identity which will be attractive to an absolute majority of the Ukrainian citizens, be intensified. The Ukrainian state must spare no effort in tackling this task which should be regarded as a priority. In view of this, the concept of forming national identity of the citizens of Ukraine must be developed as soon as possible; this concept must be designed to:

introduce systematic and coordinated activities to be undertaken by the institutions of state power and of local self-government to develop national identity and establish a Ukrainian political nation;

introduce the Ukrainian society to the European values which should become a unifying factor for all the citizens of Ukraine;

develop cultural unity of Ukrainian society, to form an integral and harmonious Ukrainian national language-cultural space; to revive the historical memory of the Ukrainian people;

achieve peace and concord, a favorable moral and psychological climate in the society;

increase societal solidarity and tolerance to foster respect for the rights of ethnic minorities;

promote society mobilization to work for a general consensus on the key national tasks, to improve the ability to better resist external threats and challenges;

overcome alienation of Ukrainian citizens from the government, raise their level of trust and respect of state symbols and institutions;

develop common political culture and institutions of civil society.

## **6.2. WAYS OF MAKING CULTURE A KEY FACTOR IN NATIONAL CONSOLIDATION AND MODERNIZATION OF UKRAINE**

Never before in its history Ukraine was so open as it is now to the world which is becoming ever more complex, diverse and globalized. The post-industrial realities have caused considerable changes in assessment of the role of culture in the life of those countries that have embarked upon the road of modernization. In developed democratic societies, culture is looked upon not as a sum total of events and circumstances, but as a powerful factor in a stable development of society.

Modernization by its very essence is a phenomenon in which culture is a moving force. That is why only the states that conduct national cultural policies which can rise to the challenges of culture, can find adequate responses to the challenges of modernization.

The twentieth century has stripped the scientific and technical progress of its aura of universal value. Ideals of "progress" have been substituted by a more flexible concept of human development, in which the key position is occupied by culture, both of an individual and of society taken as a whole.

Starting from the mid-twentieth century, the development of post-industrial countries began to be determined not by the traditional branches of material production but by high technologies, in which a lion's share is taken by the spheres of culture and education. The most dynamic development is observed in cultural or creative industries - that is, spheres of activity which are generated by individual creative abilities, skills and talents, and have a potential of creating values and jobs thanks to the production and use of intellectual property.

At present, television and radio, book publishing, fashion, advertisement, creation of software designed for entertainment and other purposes and so on, are enhanced by the resources of the cutting-edge information and communication technologies. Their share in the GDP of the developed nations constitutes 10 to 12 percent.

To view culture as "a non-productive sphere", to regard it as a certain form of a cultural and historical heritage or of a "high" classic culture are a thing of the past. A new approach to culture is in its broader anthropological context as to a phenomenon which greatly affect the development of new technologies, qualification level of employees and workers, management efficiency, social and political practices of society members, and even the ways in which the state employs mechanisms of undertaking economic activities.

The dynamic branches of the post-industrial economy are developing on the basis of "the economy of knowledge" with involvement of the resources of highly professional specialists - that is, people of high culture and powerful creative potential. The countries that are unable to create a breeding ground for forming a high-class, creative human capital - and this is a prerequisite for having high-quality education, high, dynamic and accessible culture - are doomed to lag behind.

Culture acquires a particular importance in the context of globalization. Culture offers new communication possibilities thanks to which new cultural and art phenomena go across the borders unhindered. However, intensification of cultural exchanges is fraught with unification which goes hand in hand with mass production and consumption, and which is a hindrance to uniqueness and variety without which neither art nor culture in general are possible.

Only a comprehensive and diversified national culture can counteract the leveling and dehumanizing impact of global mass culture. At the same time, such culture should not be identified only with the high-end "elite" art. It can contain in itself all kinds of trends and genres, popular ones included.

Most of the present-day theories of what a nation is agree upon understanding that a nation is not only a community of people of one ethnic background or citizens of one state. A nation is a community which is united by one modern culture they share.

From this premise follows a conclusion of a strategic importance for Ukraine: in order not to get lost in the modern globalized world, Ukrainian national culture should become a culture which is up-to-date, dynamic and competitive; it should get established beyond the narrow frame of folk and poetic national space, beyond the circle of traditional genres and styles; it should develop present-day areas of creativity and cultural practices. At the same time, it is important to preserve its own national cultural identity, to promote the original, easily recognizable image of Ukrainian culture so as to have it clearly imprinted in the consciousness of the world community.

Ukraine can achieve this ambitious goal if it manages to give the development of culture a place of priority in the hierarchy of national tasks to be fulfilled, and if it is turned into a key factor of modernization.

Ukrainian culture, which is a key feature of national identity, is called upon to play its consolidating role. In this respect, its potential has not been fully probed. History shows that if a national culture does not shape or does not reflect the integral way of life, or does not produce symbols and values which can be shared by the whole nation, such a nation loses its own identity, and, consequently, fragments into language and ethnic groups and religious groupings which are indifferent or hostile to each other.

National identity is a prerequisite of Ukraine's national security. The Strategy of National Security of Ukraine says, in part, that "solving the problem of ensuring the national unity of the Ukrainian state is hampered by stratification, and that is caused by differences in culture and historical experience in various parts of Ukraine and its society, in the views of its members on values and world outlooks".

Such a stratification can only be overcome on condition of establishing a fully structured language and cultural space which is capable of producing a cultural identity of the Ukrainian nation.

A necessary condition for forming a nation and national culture is to have a well-developed communication space. A cultural and communication concept of a modern nation has been brilliantly interpreted by Benedict Anderson in his well-known theory of "imagined communities".

Thus, before the role and place of culture in forming the national identity and social consolidation is defined, two most important directions in the development of culture should be named.

Firstly, it is the formation of a fully-structured national language and cultural space which will become a safeguard of the unity of Ukrainian society; the processes of forming a modern political nation should be stepped up.

Secondly, the language and cultural diversity of the Ukrainian nation should be regarded as a potential for this nation's development, for activation of an intercultural dialogue and cooperation for maintaining interethnic and inter-religious peace in Ukraine.

From this it follows that the key principles (directions of activity) in the current cultural policies in Ukraine should be:

- formation of a cultural identity of the citizens of Ukraine;
- easy access for Ukrainian citizens to cultural heritage and achievements;
- development of a creative potential of Ukrainian society;
- preservation of cultural diversity of the Ukrainian nation.

These principles are consonant with the principles of cultural policies which were declared in the report of the Council of Europe *In from the Margins* (1997) and are widely accepted in the EU countries.

Analysis of the state and prospects of modernization of the state cultural policies in Ukraine brings productive results in each of the above-mentioned directions of activity.

Formation of a cultural identity of Ukrainian citizens

Ukrainian culture includes a considerable number of original cultures of ethnic minorities and ethnic groups that have been living in the territory of the present-day Ukraine for long stretches of history. Such a cultural diversity should be treated not as a nuisance to be rid of but as a treasure to be proud of and enriched.

Identity formation policies in no way must be directed at assimilation of national minorities. Such policies are quite compatible with the preservation of language and ethnic cultural diversity that exists in Ukrainian society of today. A theoretical foundation for such an approach is a concept of "liberal nation formation" developed by the Canadian scholar Kimlichka; this concept has gained a wide currency in the European intellectual discourse. According to the concept, citizens of present-day states should not be necessarily united by a commonly shared culture in its "rougher" ethnographic embodiment. The current processes of nation development are based on policies that aim at the creation of a "refined" societal culture and language whose main purpose is formation of cultural and ideological grounds for the development of democracy and civil society. In most cases it entails identification, at least symbolical, of national culture with the culture of the main ethnic group.

Modern national culture requires for its existence an integrally whole national cultural space whose functioning is supported by commonly shared language practices and channels of cultural communication that run through society in its entirety.

A national cultural space can be regarded as an integral whole if:

firstly, there exist developed common symbol systems (language; values system; national heritage, etc);

secondly, cultural requirements of society are met primarily with cultural products provided by national producers and by national communication channels;

thirdly, society does not include large-sized groups which have continually been staying outside the sphere of national communication channels (networks) or have been staying within a foreign national cultural sphere.

The problem of forming an integrally whole national cultural space is an urgent one for the present-day Ukraine. Considerable differences in cultural and world outlook orientations, in the systems of values, in sources of cultural and political information that get established among various groups and

regions, cause different and even diametrically opposite approaches to responding to the main political, economic, and geopolitical challenges that this country faces; these differences also form in Ukrainian citizens the opposite views on Ukraine's past and future, on the ways of development, and on Ukraine's integration into the world community.

In order to create an integrally whole national cultural space, a real integration of regional and local public spheres into one system is required; such parameters as language and cultural unity of society are essential as well as a structural completeness of national culture. The Ukrainian cultural "structural incompleteness" which has been described by Ivan Dzyuba is a legacy of "cultural imperialism" of the imperial Russian and Soviet times. Overcoming the consequences of this "cultural imperialism" should be an issue for the state policies in order to preserve social unity and cultural originality of Ukraine.

Among the goals to be achieved by the state policies which are connected with the re-establishment of the integrity and fullness of the cultural space is a dynamic development of national cultural industries and creation of a full-fledged market of easily accessible, high-quality culture services.

Ukraine has one of the lowest European levels in the development of the newest technologies, number of books published and of films produced. However, it should be noted here that cultural industries have begun to occupy an increasingly prominent place in the country. According to experts, the Ukrainian book market is worth 360 million US dollars a year; advertisement market - 700 million US dollars a year; that of film distribution - 100 million dollars a year. Profits of the leading TV stations in Ukraine such as Inter, Studiya 1+1, are within comparable brackets.

However, even a superficial analysis of the markets of cultural industries shows that there are considerable asymmetries and deformations in their structures. Foreign commercial mass culture, mostly Russian and American, continues to dominate Ukraine's cultural space. For example, the volume of books published in Russia is several times greater at the Ukrainian book market than that of books published in Ukraine. Out of all the films that were shown in Ukraine in 2007, only 2 or 3 percent were Ukrainian productions, the rest were US and Russian movies with a sprinkling of European films. Recordings of Ukrainian performers make up only 15 to 20 percent of the Ukrainian music market and radio broadcasts.

Under such conditions, the protectionist state policies should be given a priority. Not that a mechanism of limiting foreign "cultural import" or banning it altogether should be introduced - it is encouragement and support from the state that are needed; it can be done, for example, through tax privileges for Ukrainian publishers, performers, film makers, etc., and through creating a favorable investment climate in the sphere of creative industries.

Thus, ensuring the integrity and structural completeness of the Ukrainian cultural space should become a priority in the humanitarian policies of Ukraine. Instruments of doing this can be:

improvement of laws dealing with distribution of information, and introduction of mechanisms that would guarantee compliance with the laws;

development of national television and radio networks covering the whole of Ukraine;

state protectionism as far as national cultural industries are concerned with a purpose of increasing the presence of the Ukrainian cultural product in the structure of cultural consumption in all the regions of Ukraine;

promotion of active integration of Ukrainian culture into the world cultural space.

The next strategic task is to ensure easy access for Ukrainian citizens to the achievements of culture and to the Ukrainian national cultural heritage.

During the years that have passed since Ukraine's independence, large-scale changes have taken place in the structure and character of Ukrainian citizens' cultural activities and leisure. The number of mass cultural practices that once used to be popular has noticeably decreased. For example, the number of visits to museums decreased three times, attendance of concerts has dropped four times, and of cinemas - sixty times between 1991 and 2000. A certain increase in such attendance and visits has been observed since 2001, but they are still much below the levels reached in 1991.

At the same time, the development of such new areas of cultural life as show business, music industry, entertainment industry, the Internet has a spontaneous character and has not brought with it much expected investments or creative incentives for the Ukrainian mass culture. The newly acquired forms of cultural practices and organization of leisure have become, because of their costliness, a sphere of consumption primarily for well-to-do strata of population. The differences in the property status can also be assessed by cultural consumption as different strata of population have different access to the cultural achievements. No doubt, such a state of things is not conducive to social consolidation since it contradicts the traditional values of society, i.e. social justice and solidarity. This situation is far from the European standards in which free market, freedom of creative expression and social responsibility are elements of culture.

There is yet another problem - the increasing differences in cultural practices of the major cities and provinces. For example, a marked tendency observed in major cities is growth of the number of modernized movie theaters. In 2007, their share in the general number of theaters reached almost 35 percent. At the same time, the number of small outdated theaters, particularly in small towns and in the countryside, is decreasing. Disproportions in the structure of cultural consumption can also be illustrated by the following statistics: urbanites in today's Ukraine spend three and a half times more money on entertainment and cultural visits than people who live in the rural areas.

Differences in access of big city residents and countryside dwellers to the Internet, to television broadcasts and to the printed media, are quite striking too. In most cases, people living in the rural regions have access to only three of four TV stations, only to local radio stations and local press, and they read newspapers and magazines once a week on average. For all practical purposes, the Ukrainian major cities and Ukrainian villages exist in different cultural worlds, if not in different ages.

In order to achieve real changes in cultural life it is necessary to radically widen access of all the strata of Ukrainian society - inhabitants of small towns and villages in particular, to achievements of culture, to cultural and art services.

It is necessary to step up state programs of supplying public libraries with a larger number of Ukrainian books, to promote books and reading in general among younger generations, to increase the production and distribution of Ukrainian films, to record and popularize Ukrainian academic and popular music, to develop the networks of bookstores and cinemas, etc.

Particular importance should be attached to the promotion of relevance of the Ukrainian national cultural and historical heritage - it should become an active element of the cultural policies.

Ukraine has a very rich and truly unique cultural heritage both in the material sense (Ukraine has over 57,000 archeological landmarks, over 51,000 historical monuments, about 23,000 architectural and monumental art landmarks, over 11 million movable items in storage at more than 450 museums and cultural reserves) and in the spiritual sense (customs, traditions, folklore, etc.).

Because of a chronic lack of funding for repairs and restoration, about 50 to 70 percent of landmarks are in an unsatisfactory state of preservation, and about 10 percent are in a disastrous state. Museums can exhibit only a few percent of the items they have in their possession for lack of space.

Consequently, one of the major tasks of the state cultural policies is not only to preserve the Ukrainian national heritage but to make it relevant, in other words, to turn it into a key factor of national identity, education and upbringing of the young generations, of fulfilling the potential of Ukrainian society.

Several main policy directions to be pursued in the sphere of culture are as follows:

popularization of the Ukrainian cultural heritage both in Ukraine and abroad;

development and modernization of the network of museums and cultural preserves (for example, through non-government investments and donations by patrons of art and culture);

creation of favorable tax and investment conditions for the development of those branches of economy that are based on the cultural heritage (decorative and applied arts and crafts, cultural tourism, tourist infrastructure);

support for the development of domestic tourism, and cultural tourism in particular.

At the same time, the protection of cultural landmarks should be upheld and the laws that deal with such protection strictly obeyed.

Completion of such large scale cultural and art projects as Mystetsky Arsenal in Kyiv, Hetmanska stolytsya in Baturyn, Khortytsya and Chyhyryn historical and cultural preserves should be included among the priorities of the state cultural policies.

Formation of a powerful creative environment that would be conducive to the development of creativity in its various forms and ways of expression is another very important task to be undertaken.

The creative potential of a society includes several main elements: efficient infrastructure (networks of cultural and educational establishments of various levels - from music and art schools and amateur hobby groups to music conservatories and art academies); creative traditions of national art schools; preservation of traditional folk decorative and applied art centers and of handicrafts not as a part of local ancient folk art traditions that are good only for museums, but as living creative bodies; formation in the society of new approaches to art and other types of activity based on individual initiatives; fostering such attitudes through education, etc.

The Ukrainian creative environment is yet to be developed so it can adequately meet the requirements of Ukraine that is being modernized. The network of cultural and community centers is in a deep crisis; the infrastructure on which amateur art and technical-invention activities were once based, has badly deteriorated. The number of students at esthetic education schools continues to decrease; the material basis of such schools is in a poor state. Talented young artists continue to leave the country.

All of these things make it necessary to take systematic measures designed to develop the creative potential of Ukrainian society. It is necessary:

to rally support not only for "high" academic art but for contemporary artists who work in different styles and follow different trends, particularly those that require the use of cutting-edge technologies - video art, digital cinema, computer-based interactive creations, etc.;

to intensify creative contacts of Ukrainian artists with art centers in foreign countries, to encourage Ukrainian artists to take part in international art festivals, contests and exhibitions;

to amplify the cultural and educational content of Ukrainian television and radio broadcasts, and of films shown in theaters;

to promote creation of Ukrainian high-quality art TV programs, TV serials of cultural, historical and educational content;

to considerably widen the cultural and art content in the curricula of secondary schools and higher educational establishments; to develop the network of art schools, to broaden access to good-quality art education and to amateur activities in the visual and performing arts.

Adverse social and political circumstances, outdated theoretical concepts and antiquated ideas of formation of ethnicities and nations that date from the late nineteenth-early twentieth centuries have long been standing in the way of deeper understanding of the advantages that the poly-cultural makeup of Ukraine offer.

Unfortunately, in the intellectual and political discourse, the language and cultural diversity of Ukrainian society continue to be looked upon as a hindrance to the formation of the Ukrainian nation, rather than a resource which can feed social development and cultural enrichment. Discarding such anachronistic attitudes, seeking modern paradigms of national culture is an urgent necessity in terms of the future social and cultural development of Ukraine.

As a matter of fact, it is the formation of the paradigm of Ukrainian national culture as an aggregate of cultures of all the ethnic minorities and ethnic groups that we are talking about here. At the same time, the Ukrainian ethnic culture is a system-creating component of the whole national cultural system.

Evidently, the Russian-speaking community of Ukraine that belongs to the above-mentioned cultural system should feel as a part of the all-Ukraine cultural tradition, as a part of the Ukrainian political nation rather than a provincial appendage of the Russian post-imperial culture.

A similar thing can be said about the cultures of the Crimean Tartars, ethnic Hungarians who live in Transcarpathia in western Ukraine, ethnic Greeks who live in the areas close to the Sea of Azov, and of other ethnic minorities. Development of cultural policies based on the principles of "unity in diversity" is not an easy thing to do, but it can be done. Striving for the European standards in cultural practices which are being pursued within the framework of multiculturalism, could bring very productive results in Ukraine.

Reviewing the role of culture in social consolidation and modernization of Ukraine requires considerable amendments of the principles and methods of the Ukrainian state policies in the sphere of culture, and of the functions performed by the Ukrainian government in the sphere of culture.

Such a review would require an active study of the experience of reforms in the cultural policies carried out by the EU countries for possible application of similar measures in Ukraine; also, a more intensive cooperation with the European structures is needed, with the Council of Europe in particular. Ukraine's participation in the Council of Europe program that concerns and reviews national cultural policies of the EU member nations was an important step for Ukraine in this direction. In May 2007, the National Report on Ukraine's cultural policies was delivered in Strasbourg. The Ukrainian cultural community has discussed the report, and lively discussions continue dealing with the main features of the urgent reforms to be carried in the state cultural policies.

Attention should be given to the comments and proposals to be found in the published Council of Europe report Cultural Policies of Ukraine - International Expert Assessment.

Ahead of anything else, the concept of national culture as an object of state support should be augmented. The culture concept that exists today is burdened with the Soviet legacy as culture was treated in a narrow sense in the Soviet times. The expert conclusions of the Council of Europe say in part, "The understanding of culture which was typical for the nineteenth century is not applicable in a European country that is carrying out modernization and lives in the twenty-first century when cultural health of the nation requires a combination of socio-economic measures and goals, as well as stimulation of creative industries of the economy of knowledge and introduction of new and synthetic forms of cultural expression and product."

The review of the official interpretation of culture requires that the system of managing cultural transformation in Ukrainian society be renovated. Understanding of culture not in a narrow sense but in a wide, universal one should be established in the intellectual discourse. Culture is an integral way of life of an individual and of a nation.

Such a view of culture requires that a certain revision of the functions of the Ministry of Culture and Tourism of Ukraine be carried out. Authority and prerogatives of this department should be broadened to enable it to carry out the following tasks:

to rally efforts of the executive and legislative bodies around commonly established strategies of cultural development, to turn its potential into a powerful factor of social consolidation and modernization of Ukraine; to maintain constant coordination of steps taken within the state policies which are directed at achieving the goals of these strategies;

to form a legal basis favorable for the development of all the sectors of culture (state, communal, commercial, independent, non-profit cultural organizations); to create conditions for developing state protectionism of Ukrainian cultural (creative) industries;

to introduce new instruments of flexible and efficient legal, institutional and financial levers of purposefully affecting the cultural development in accordance with Ukraine's national interests;

to create a positive climate for full-fledged development of culture, creativity, innovations and entrepreneurship in the cultural sphere; to coordinate the policies of intellectual property rights protection;

to master up-to-date models of advocacy of the cultural sector interests alongside with those which are regulated by non-specialized laws;

to develop productive public-private partnerships in cultural sector, relations with non-governmental culture and art associations, and organizations of civil society with the aim of putting together resources and efforts for cultural development of Ukraine;

to work out effective methodology of stimulating private investments and sponsorships, and create a transparent system of state investments into creative cultural programs and projects;

to create conditions for easy access of Ukrainian citizens to the Ukrainian cultural heritage, to the contemporary cultural product, to participation in cultural processes and practices which contribute to the formation of the Ukrainian national identity, cultural diversity, creativity and tolerance;

to coordinate the national cultural policies with the regional and local cultural strategies;

to integrate Ukrainian culture into the European cultural space; to take necessary steps enabling Ukraine to take part in European cultural projects, practices, discussions, mechanisms of information exchange within the framework of the Council of Europe program Kyivska initsiativa (Kyiv Initiative) in particular.

### **6.3. PRIORITIES OF NATIONAL LANGUAGE POLICY**

To establish a national identity, the country needs to form a national space for culture communication united with common language practices that envelope all the areas of social life. It is in the process of communication within a single language-and-culture space that national consolidation develops, and a national identity is established. The progress of the Ukrainian language in the territory of the Ukrainian state is a consolidating force not only for the title nation but the ethnic minorities as well as it is a key factor for unification of the Ukrainian political nation.

The Ukrainian language has a special role in the national identity formation. It comes second among the Slavic languages in terms of the number of people who speak it, and it enjoys a long historic and cultural tradition of usage in various spheres of public and social life. The Ukrainian language was one of the basic features of the regained Ukrainian statehood.

For quite a long time, the independent Ukrainian state underestimated the importance of the ethno-cultural factor for consolidation of the Ukrainian nation, as a result of which its huge unifying potential has not been used in full. Today it is evident that Ukraine needs a clear policy to restore the integrity and entirety of the national lingo-cultural organism. The policy should be well-balanced in every component, comprehensible and acceptable for the members of all the ethnic groups.

On the one hand, social consensus is required to promote the development, support, and the expansion of the functional area of the title ethnic group's language and culture as it is the integrating force for the development of the political nation. On the other hand, the people's collective consciousness must come to a clear understanding that the expansion is not equal to cultural assimilation of the ethnic non-Ukrainians. The process of formation of the political nation is completely congruous with preservation of linguistic and cultural diversity of modern Ukrainian society.

Today's democratic nation-building is a policy aimed at promoting joint participation of the citizens in all the social and public institutions including the ones that are based on common language practices, such as education system, mass media, public administration, local self-government, administration of justice, and so on. This nation-building does not require cultural assimilation of the minorities but rather encourages their organic integration into a common societal culture. The main function of the latter is to establish a value base for the development of democracy and the civil society. This usually suggests a symbolic identification of the national culture with the cultural tradition and language of the title ethnic group without giving it any exclusiveness.

It is important to comprehend that the Ukrainian language is more than just a medium of communication: it relays the historic memory, traditions, spiritual and cultural heritage of the Ukrainian nation, and it determines its uniqueness by preserving and producing senses and values. Therefore an effective language policy can not be guided only, or even for the most part, by utilitarian and

pragmatic criteria that define a language as merely means of communication.

The current language situation in Ukraine is largely distorted as a consequence of the long and determined policy of linguistic and cultural assimilation conducted by the Russian Empire, and later the Soviet Union according to its theory of development of "the new historic community, the Soviet people".

The relatively largest language group in Ukraine today is the people who only speak Ukrainian, while two smaller groups, almost equal in size, are bilinguals and those who only speak Russian. The bilinguals are predominantly ethnic Ukrainians and the people who consider Ukrainian to be their mother tongue. Ethnic Russians and the people whose native language is Russian are mostly monolingual. The share of bilinguals is 2.7 times larger among ethnic Ukrainians than among ethnic Russians, and almost twice larger among those who consider Ukrainian as their native language when compared to the people who claim Russian to be their native language.

Therefore, the Ukrainian language and all the national minority languages remain the donors of Russian. A large part of the people of non-Ukrainian and non-Russian ethnicities, 15% of ethnic Ukrainians, and the majority of certain ethnic groups consider Russian rather than their own language to be their native tongue. Almost 20% of ethnic Ukrainians speak solely Russian.

The Russian language dominates today in many areas of public life, with the exception of education and, partially, public administration. According to the "Language Balance in Ukraine" research conducted by the experts of The Ukrainian Democratic Circle NGO and the Ukrainian Sociology Service in December 2006, most sectors of public life reveal a steady imbalance with the dominance of Russian. The level of diffusion and use of Ukrainian does not correspond to the ethnic proportion between Ukrainians and Russians (77.8 % to 17.3 %), or the number of people who consider their native language to be Ukrainian (67.5%) or Russian (29.6%), or the real language situation in the country where 68.6 % of the population use Ukrainian in some form or another, while 61% use Russian.

The language imbalance in Ukraine reflects the well-known rule of sociolinguistics which suggests that a weak national language policy leads to support of the stronger language. The Russian language preserves its dominance in most sectors of the country's information space, such as urban communication, mass culture, media, book market, and others. The russification of the lingo-cultural space of Ukraine results in mass violations of the language rights of the Ukrainian speakers.

At the same time, the recent years have seen the trend of gradual expansion of the Ukrainian language in certain sectors. Ukrainian prevails now in education, though a powerful infrastructure of Russian-language education facilities has been preserved in the northern and southern regions of the country. The share of Ukrainian keeps growing in TV broadcasts, and the Ukrainian-language music product is increasing its presence in show business, on TV and radio. The downfall of Ukrainian book publication has stopped.

The trend was supported and advanced by two decrees of the President of Ukraine issued in 2007, "On Activities to Develop Humanitarian Sphere in the Autonomous Republic of Crimea and the city of Sevastopol" and "On Activities to Elevate the Role of the Ukrainian Language". The goal of the decrees was to promote the Ukrainian culture, the development and use of the Ukrainian language in every area of public life, meet the language and cultural needs of the national minorities, encourage the young people to take their studies in Ukrainian, and so on.

It should be noted, however, that the positive changes in Ukraine's language environment are too slow yet. To a large extent this is caused by the over politicized nature of the language situation which leads to disintegration of the Ukrainian society and weakens the potential of the Ukrainian Language as a driving force for national identification. This over politicized situation is demonstrated, in particular, by the initiative to have a referendum on awarding Russian the status of the second state language. It is obvious that if such a referendum were to take place its results would largely depend on the exact wording of the questions and proposed answers, which opens up a broad possibility for manipulations.

Sociological polls have confirmed that when choosing between two options, i.e. Ukrainian as the only

state language or both Ukrainian and Russian as state languages, 45% of those polled said that Ukrainian should be the only one, while 52% preferred both Ukrainian and Russian as state languages. Those were the results that Researching Branding Group arrived at as it polled 2215 persons in all the regions of Ukraine between November 5 and 15, 2006.

A different picture emerged after the research "Social and political orientations and the electoral mood of Ukraine's population" conducted by the Ukrainian Sociological Service between July 16 and 25, 2007 when it polled 26,000 people in every region of the country. 46.03% of the respondents said the status of Russian should not be changed, 22.69% suggested that Russian should be awarded the status of official language in certain regions of the country, and only 23.36 % supported the idea of giving Russian the status of the second state language.

Most citizens of Ukraine, however, do not consider the language issue a priority. The status of Russian ranked 26th, and the status of Ukrainian 24th in the list of thirty problems that the Ukrainian population regard as the most dramatic ones today. The status of Russian issue was listed among the top ten problems by merely 8%, mostly among those polled in the Crimea and Donbass, while 9% of the people polled in the West of Ukraine said the status of Ukrainian was a problem. 52.1 % of the respondents waved the language issue off as "not urgent and nonexistent at all".

Implementation of the "second state language" project can have destructive consequences for Ukraine. It can bring along fragmentation of the national communication space, a deepening lingo-cultural gap between the urban and rural areas and between the East and West of Ukraine, gradual isolation of labor markets and education service markets, reduced labor mobility and competitiveness of the Ukrainian citizens inside their own country. It can also lead to establishing complete domination of Russian in a number of regions, and aggravation of the language disparity that the nation experiences as a result of long-term cultural assimilation of Ukrainians.

The complex language situation, both in its humanitarian and political dimensions, calls for a carefully balanced language policy the concepts for which should be developed and adopted on the state level. The concepts should be based on the dual task stemming from Article Ten of the Ukrainian Constitution, i.e. state support to comprehensive development and use of the Ukrainian language in every sphere of public life throughout Ukraine, with concurrent guarantees of free development for Russian and other national minority languages.

Special attention should be given to protection of the national minority languages under threat of extinction. In that respect, the Law of Ukraine "On Ratification of the European Charter of Regional Languages or National Minority Languages" should be brought in line with the original version of the Charter, to correspond to its subject matter and objectives.

The goal of the national language policy in Ukraine is to extend the functional area for the use of Ukrainian as the state language and to apply its potential to consolidate the Ukrainian society and establish the national identity.

Further promotion of the Ukrainian language requires efforts to increase motivation for its use. Conditions should be created under which one's command of the state language can become an essential element of competitiveness and an important means to achieve professional success and career growth in public life and civil service.

A priority area of the language policy is modernization of the national language legislation. Laws on languages have been adopted in most nations of the post-Soviet space throughout the years of their independence, while Ukraine still uses the law "On Languages in the Ukrainian Soviet Socialist Republic" passed in 1989. Although a number of draft laws "On Languages in Ukraine" have been registered at the Verkhovna Rada, the legislators have never had sufficient political will to endorse the fundamental legal act.

Certain other legislative acts dealing with the language situation in Ukraine have to be corrected, too. Though the state status of the Ukrainian language is one of the pillars of Ukraine's constitutional system, the current legislation does not contain clear requirements on the use of the state language. The Laws of Ukraine "On Civil Service" and "On the Status of People's Deputies" do not have the provisions that require civil servants and members of Parliament to be able to speak Ukrainian. Such pro-

vision, however, can be found in the laws of many nations. Article 21 of the Federal Law "On Principles of Civil Service in the Russian Federation" of July 31, 1995, states that "the right to enter the civil service shall be provided to the citizens of the Russian Federation over 18 years of age who speak the state language, have a professional education, and meet the requirements imposed by this Federal Law for civil servants".

Evidently, effective management of language issues would require streamlining the institutional system of language policy administration. Today its administration falls within the competence of a number of Government institutions, such as Ministry of Justice, Ministry of Culture and Tourism, Ministry of Education and Science, State Committee for Radio and Television, State Committee for Nationalities and Religions, National Council on Radio and Television, and so on. Many experts believe that a special agency for national language policies should be set up within the system of central executive power and institutions of the Council of Ministers of the Crimean Autonomous Republic, regional administrations, and Kyiv and Sevastopol city state administrations.

Therefore, the current priorities of the national language policy are as follows:

uncompromising enforcement of the provisions of Article Ten of the Ukrainian Constitution;

development and adoption of the national language policy concepts, modernization of the language laws, and improvement of the enforcement practices;

streamlining institutional support for the national language policy, development of an effective system to control the implementation of the language laws and mechanisms of their enforcement;

strengthening the role of the state language as the unifying force in the Ukrainian society and a tool for consolidation of Ukraine's national unity;

overcoming the language imbalance in the national information space and culture;

establishment of Ukrainian as the state language in all the sectors of public life throughout Ukraine, particularly for civil servants, and officials of the central and local government institutions when exercising representative functions in the international context;

mobilization of public opinion and media to increase prestige of the state language;

promotion of national minority languages and support of the languages that require special protection.

#### **6.4. FORMATION OF NATIONAL HISTORIC MEMORY**

Most classical theories of nations suggest that their key characteristics include common culture, language, territory, and economic life, but another important factor is the nation's common historic destiny. It is the unique historic destiny that gives one the reason to feel a member of a certain nation, and to feel distinctively unique in the relations with representatives of other nations.

Every government without exception had used episodes from the country's ancient and great history to foster patriotism and social consolidation long before the process of establishment of modern nations was over.

That practice received theoretical support in the positivist 19th century, when English philosopher Thomas Carlyle related historic life to the great personalities and suggested that the popular "adoration of the national heroes" was the best way to stabilize the political and social systems as it gave one "the never-dying hope for a fair rule of the world".

At the end of the 20th century, an idea became popular among Western historians suggesting that all of national history was a "constructed memory" as a special socio-cultural phenomenon describing individual and social perception of one's place in time. Of special importance are memory spots (the term was coined by French historian P. Norat), i.e. personalities and events that have a formative meaning for the national history. The actualized memory spots justify, explain, and support moral principles and public institutions that every society is built upon by providing people with existential and ontological orientation in their lives, and eventually becoming the backbone for national identity.

At an early stage of its formation, every European nation developed, through the efforts of its intellectuals, its own national history canon and, at the same time, a certain historical mythology, which in this context is an academic term used to describe a given sacralized history and devoid of any positive or negative connotation.

It is that historical mythology, correlated only to a certain extent with the scholarly historical knowledge, is the factor that affects the establishment and actualization of the memory spots. The reasons for that are clear: historical knowledge resides at the research institutions, university colleges, and professional publications. Historical mythology, however, can be found in media space, and cultural and communication practices of millions of people. Therefore it is just the question of correlation between the objective image of national history and the romanticized national mythology.

The rejection of the imperial role by the European nations and, consequentially, dismissal of the need to ascertain their greatness with the episodes of the "heroic past" have led to gradual approximation of the past pictures representing historical knowledge and historical mythology. Much work has been done within the United Europe project to coordinate the national visions of history, develop mutually acceptable interpretations of numerous past controversies, and form a common European historic narrative. An example of successful solution that few people thought would be possible because of dramatic past conflicts was the joint work of French and German historians in the 60s and 70s that laid the foundation for the German-French reconciliation.

Meanwhile, the imperialist and totalitarian states constantly need to develop the national historic myths that serve political interests of the ruling regimes. Moreover, the existence of objective historical knowledge is problematic in such states as the personalities and events that fall out of the officially accepted pattern often get banned. This trend was vividly illustrated by censor harassment and outright reprisals of the disobedient historians in 1930s that ended up with physical obliteration of the researchers and destruction of the academic schools that "restrained and distorted" the development of historical science in the former USSR and its "inseparable component", the Ukrainian Soviet Socialist Republic.

A noticeable tendency of the 20th century was the process of construction by the former colonized nations of their own historical narratives. The methodology of postcolonial studies has promoted recognition of the fact that the colonizers had imposed their own versions of history whereby the colonized nations were given a subordinate role as the "underdeveloped" ones. The colonized nations were also inculcated with the negative auto-stereotype of being weak, less gifted, and unable of managing the country on their own. The leading contemporary researcher of nation-building B. Andersen noted that the young nations which gained independence in the second half of the 20th century reacted to that by "devising a long and ancient history" as a crucial element for generation of their national ideologies.

The postcolonial methodology was productively applied to Ukrainian studies, too. The Russian academicians of the 18th and 19th centuries concocted a stereotype, further advanced by Soviet ideologists, whereby the Ukrainian nation was regarded as a by-product of historic development that had come into existence in the times of Lithuanian, Polish, and Austrian foreign rule. The Russian Empire directly attributed the emergence of Ukrainian political identity to the "Polish-German-Austrian intrigue". At the same time, the Russian nation was proclaimed the successor of Kiev Rus, "the great people", and "the chosen people" in the Tsarist time, while the Soviet epoch gave it the title of "the bulwark of the world revolutionary movement", in other words, the people with the special mission to save the mankind.

Throughout many centuries, Ukrainians were considered to be an element of the old Russian Princedom and modern Russia. The official theory claimed that the ethnic Ukrainian development had started rather late, not earlier than in the 14th century, and the only desire of Ukrainians was to "reunite as soon as possible with the great fraternal Russian people". Therefore, Ukrainians would automatically acquire the status of a non-state people, an "undernation".

Ukrainian intellectuals persistently contested the imperial speculation. Most experts agree that the History of Ukraine-Rus by Mykhailo Hrushevskiy proposed a Kiev-centric model of the national history as a kind of a complex polemical response to the History of the Russian State by official tsarist historian Karamzin. In the same way prominent contemporary researchers, such as Hrabovych,

Zabuzhko, Barabash, and Hrytsenko, to name a few, study Shevchenko's myth of the reviving Ukraine that had appeared as a response to Gogol's myth of the spent Ukraine that belonged to the past.

The problem, however, is that the imperial mythology had been thoroughly developed and propagated. In the Soviet time it was implanted as "the objective laws of historical development", and it always had numerous channels of distribution and indoctrination. The situation has never changed fundamentally, not even after Ukraine declared its independence. This can be explained by several reasons.

First, the longevity of mental stereotypes, whether malo-Russian, east-Slavic, or Soviet ones, whereby augmented historical memory is transferred to the younger generations from the older ones whose mentality was shaped in the USSR.

Second, the systematic retransmission of the imperial mythology through various channels, e.g. Russian TV soap operas, popular music with the "Russian valor and glory" as its frequent central theme, omnipresent Soviet symbols, and the toponymy of Ukrainian towns and villages that still glorifies personalities and events of the imperialist and totalitarian past.

Third, the presence of researchers and instructors with post-Soviet or pan-Slavonic thinking in the Ukrainian academic and university environment. Unfortunately, the academic and educational processes, as well as the national information space, still preserve some rudiments of Soviet ideological cliches for interpretation of Ukrainian history.

Fourth, the compromising and inconsistent nature of the memory policy that the Ukrainian authorities have conducted for a long time.

One has to bear in mind that the Ukrainian nation has suffered from an incurable national trauma: not only was the collective conscience of Ukrainians subjected to prolonged ideological brainwashing, but the most active and independent-thinking representatives of the Ukrainian people were physically exterminated on an unprecedented scale during the Soviet time.

The time that the Ukrainians lands stayed under the rule of various states and empires has affected the structure of Ukrainian historical memory, and today it demonstrates distinctive regional differences. In July 2005, the Institute of Social and Political Psychology of the Ukrainian Academy of Psychological Sciences conducted a research asking the question about the achievements of the Ukrainian nation that were worth considering a matter of national pride. "Victory in the Great Patriotic War" was ranked first by 50 % of those polled. Next came "Artistic creations of great Ukrainian poets, writers, composers, and artists" with 40 %; "Successes of Ukrainian athletes" with 40 %; the Orange Revolution of 2004 p. - 32 %; "Masterpieces of Ukrainian folk lore (duma songs, decorative and applied arts, folk architecture, and so on" - 29 %, "Post-war reconstruction of the country's economy" - 27 %; "Declaration of Ukrainian independence in 1991" - 23 %; "History of Ukrainian Cossacks and Zaporizhya Sich" - 23 %; "Fight of Ukrainian human rights activists (Petro Hryhorenko, Levko Lukyanenko, Mykola Rudenko, Vyacheslav Chornovil, and others) against the totalitarian regime" - 18 %; "Labor achievements of Soviet Ukrainian workers and peasants (P.Anhelina, M.Demchenko, O.Stakhanov, O.Hitalov, and others)" - 16 %. Only 6 % of the respondents said the matter of national pride was the "History of the Ukrainian Rebel Army (UPA)", and 5 % praised "The Ukrainian Revolution of 1917-1920". A similar research conducted in August of 2006 largely confirmed the hierarchical sequence of the past events as perceived by Ukrainians, though the number of those who believed the Orange Revolution had been a significant achievement went down to 15 %.

A clear regional division is observed between the advocates of the national and Soviet versions of the Ukrainian history. Comparing the poll results in the west and center of the country as opposed to the east and south, 1.5-2.5 times more people from the former regions considered as significant the events of the national historic context, i.e. declaration of Ukrainian independence, Cossack history, cultural successes, work of the dissidents. The advocates of the Soviet Ukrainian narrative are mostly concentrated in the east and south. For those people, the critical milestones are the "victory in the Great Patriotic War", "postwar reconstruction of the country's economy", "labor heroism of the people", etc. The number of people who support the most controversial developments of the national history, such as the Ukrainian Rebel Army fight and the Orange Revolution, is almost ten times

higher in the western region than in the east: 26 % against 2 %, and 35 % against 4 %, correspondingly.

At the same time it would not be correct to conclude that there is a sharp partition between "the two Ukraines" without any connecting links. The central and the eastern regions gave, in July 2006, quite similar positive answers about creative achievements of Ukrainian poets, writers, composers, and artists (28 % and 31 %), and masterworks of Ukrainian folklore (20 % and 20 %). All the regions of the country are almost equally proud of the successes of Ukrainian athletes and Ukraine's international recognition though the figures are somewhat higher in the west. Recognition of Holodomor an act of genocide was supported, in September 2006, by the majority of respondents in the eastern region, though the margin was narrow, 39.4 % against 38.6 %, unlike the overwhelming support given by the west of Ukraine: 77 % against 10 %.

A similar situation is observed with the evaluation of the most outstanding historic personalities. The pollsters asked people to answer the question "Please name the people (not more than five) who you can consider Ukraine's national leaders throughout the past 200 years". Here is what the top ten looked like: Shevchenko (25 %), Hrushevskiy (21 %), Chornovil (16 %), Yushchenko (9 %), Kravchuk (8 %), Brezhnev (6 %), Franko (6 %), Petlyura (4 %), Bandera (4 %), Scherbytskiy (3 %). Only two thirds of those polled could provide any answer to the question, and only 16% in the southern region. Besides the expected high numbers received by famous Ukrainian writers Taras Shevchenko and Ivan Franko, it is worth noting the high ratings awarded to Mykhailo Hrushevskiy, the outstanding historian and Chairman of the Central Rada, as well as the presence in the national Pantheon of such mutually exclusive personalities as Simon Petlyura and Stepan Bandera, on the one hand, and Leonid Brezhnev and Volodymyr Scherbytskiy, on the other. The approach of the regions to the aforementioned personalities was again very different.

When the respondents were asked to rate the national leaders whose list had been offered to them, rather than try to remember "the heroes" on their own, the most positive assessments were given to Bohdan Khmelnytskiy and Mykhailo Hrushevskiy (79 % and 60 %), while Stalin and Gorbachev emerged as the negative leaders (62 % and 56 %). The high rating awarded to Bohdan Khmelnytskiy can be explained by his recognition as the great statesman in the west and center of Ukraine, while the north and south support him as the man who "reunited Ukraine with Russia". Positive attitude of the respondents to Hrushevskiy and negative one to Stalin can be interpreted as proof of certain maturity of the Ukrainian society and the existence of some consolidation points in it.

However, the trends revealed by the sociologists confirm that the conception of common destiny by the Ukrainian citizens has not yet transformed into a driving force for national consolidation. The current dualism of historical memory would not let Ukrainian citizens feel a single national community. Overcoming the ambivalence of that historical memory must become a strategic priority for the Government's humanitarian policy.

Unfortunately, political context of the recent years has not promoted a concerted and coordinated memory policy. It was rather characterized by active political fighting for the historical memory of the Ukrainian citizens. Certain political forces openly worked to install the imperial-Soviet interpretation of Ukraine's history in the collective mindset. Contentious episodes from the past history of Ukraine were pointedly used during the political campaign to step up confrontation in the society. President Yushchenko's efforts to reach reconciliation between Ukrainians who fought as soldiers of the Red Army and UPA were resisted by his political opponents. The Presidential policies sought to establish the national version of the Ukrainian history, but they were vehemently confronted with the concepts of "Slavic unity", "Union of Ukraine, Russia, and Belarus" and so on. The historical memory could not thus play a consolidating role but was instead turned into a factor of disintegration, which is absolutely unacceptable in view of the national interests of Ukraine.

A vivid example was the staunch resistance in the Parliament of the Party of Regions and CPU to the draft law submitted by the President of Ukraine that declared Holodomor of 1932-1933 a "genocide against the Ukrainian people". The Law "On Holodomor of 1932-1933 in Ukraine" was eventually adopted with a small majority of votes, but it did not contain the critical provision that made public denial of Holodomor a crime.

It should be noted that ethnic Ukrainians do not consider "understanding of distinctive Ukrainian his-

tory" an important quality that makes one a Ukrainian either. Sociological data shows that only a minor percentage of respondents answered that question positively in various polls.

A growing number of Ukrainian scholars and experts suggest that the ambivalence of the historical memory of Ukrainians can be explained by the fact that the Ukrainian state, unlike, for instance, neighboring Poland, never completed the process of decolonization or decommunization.

In that respect, the national governments have conducted quite a productive policy of careful introduction of the memory spots related to various proto-Ukrainian and proper Ukrainian states, such as Kyiv Rus, Halych and Volyn Principality, the Hetmanate, Ukrainian People's Republic, and the Ukrainian State of 1917-1920. That policy could lead to the development of a new national identity based on quite significant, albeit not too radical, elements of the national narrative. The plausibility of that is confirmed by the positive attitude of most Ukrainian citizens to the personality of Mykhailo Hrushevskiy who had been branded as an "ideologist of bourgeois Ukrainian nationalism" in the pre-independence time.

That policy contained a number of pro-Ukrainian elements: school and university curricula saw the introduction of several courses in Ukrainian history that had been developed within the national context; new educational and instructive programs were broadcast by state TV and radio; a number of historical feature films were produced with the state funding; anniversaries of important historical events were celebrated on the national level, and so on. However, those positive trends were leveled off as the official memory policy was confused and inconsistent.

In 1999 the government reintroduced the Soviet holiday of "The Defender of Homeland" on February 23, which had an immediate negative effect on the December 6 Ukrainian Army Day. The October 14 St. Mary the Protectress feast was never formally adopted, though it was to become the celebration of the Ukrainian Cossack valor. So today's official celebration of the February 23 day continues to promote Soviet patriotism and not the Ukrainian one, besides it is a mythical holiday as it has really nothing to do with the "victory of the Bolsheviks over the Germans" in the battles of Narva and Pskov on February 23, 1918.

Between 2001 and 2003, the government formally celebrated the 700th anniversary of the great statesman, King Danylo of Halych; it remembered the tragic events of Holodomor 70 years before; but at the same time it marked the 85th anniversary of Volodymyr Scherbytskiy, the Communist ruler of Ukraine, and 85 years of "Leninist Komsomol". Those years also saw the reversal of some accomplishments of the first years of independence that were intended to intensify the process of formation of Ukrainian historical memory: thus, the academic course "Political history of the 20th century" replaced in many educational establishments the course "History of Ukraine" that had been introduced in the early 90s.

The situation with the underdeveloped national history canon has led to a broadening gap not only between the mythological pictures contained by collective mentality of the inhabitants of different regions, but some academic schools working in those regions displayed the gap, too. Finally, despite certain achievements, no common approach to history has been proposed that can be acceptable both for the ethnic Ukrainians and the national minorities, particularly for the Crimean Tatars whose interpretation of many historic events of the Middle Ages and early modern times is often the opposite of the traditional Ukrainian view.

Obviously, the potential of Ukrainian arts has not been used sufficiently within the context of historical memory formation. National filmmakers have produced quite a number of historical documentaries and educational series that can give millions of people a new understanding of their past, but the leading TV channels mostly air them late at night. Such feature movies as "A Prayer for Hetman Mazepa" by Yuriy Ilyenko, or "Bohdan Khmelnytskyi" by Mykola Maschenko whose stories are set in the Ukrainian history have never been widely shown in the cinema houses and could only be watched at special shows. TV channels show plenty of pseudo-historical stories about millennia-long history of Arata Ukraine, or the role of Ukrainians in the emergence of Christianity, or in the fall of the Roman Empire, but they only provoke disbelief and skepticism.

The general situation concerning promotion of the national historical heritage has definitely changed for the better since early 2005. By initiative of President Yushchenko, national ceremonies have been

conducted to commemorate victims of the Soviet political reprisals and man-made famines, many heroes of the national liberation struggle have been celebrated, the Ukrainian Institute of National Memory has been set up, and so on. The Head of the State issued a number of decrees aimed at establishing historical truth and justice and rehabilitating the national memory. The following decrees were made public in 2007: "On Commemoration of the 90th Anniversary of the Ukrainian Revolution of 1917-1921 and Honoring the Memory of its Participants", "On Commemoration of the 65th Anniversary of the Establishment of Ukrainian Rebel Army", "On Commemoration of the 300th Anniversary on Events Related to the Military-Political Initiatives of Ukrainian Hetman Ivan Mazepa and рiччя Establishment of the Ukrainian-Swedish Alliance", "On Commemoration of the 100th Anniversary of Roman Shukhevych's Birthday", "On Declaring 2008 the Year of the Memory of the Victims of Holodomor", "On Celebration of the Day of Ukrainian Unity in 2008".

President Yushchenko's policies essentially seek to deconstruct the Soviet imperial narrative and form a national historical canon. The Ukrainian President said in his speech on the occasion of the 65th anniversary of the establishment of Ukrainian Rebel Army, "We should not omit a single important page of our history and bring back the truth as behind that truth is the great heroic deed of the Ukrainian people, the people who defeated death and eventually established their own state. The revival of historical truth means to us our common movement ahead."

It is evident that the split historic memory of the Ukrainians negatively affects the formation of a modern Ukrainian identity and restrains broad consolidation of the society in pursuit of the future priorities of the country's development. The national historic narrative suggests the logical conclusion that Ukraine should make its European choice. The Soviet imperial narrative, on the contrary, suggests that the Eurasian choice is inevitable. The national narrative implies liberal democracy and individualism, while the imperial one calls for "the strongman" and "collectivist values". The national narrative legitimizes the formal status of the Ukrainian language and strives to establish the United Ukrainian Orthodox Church, while the imperial one justifies historical bilingualism of Ukrainians and their existence within the "canonical area" of Moscow Patriarchate.

Overcoming this split in the academic field is no longer blocked by censorship and persecution of the historians who research complex subjects that were banned only a couple of decades ago. Throughout the years of independence, Ukrainian historians have made an essential contribution to the modernization of the Ukrainian historical narrative and its integration into the context of the world and European historiography. A leading role was played in that work by the institutes of the National Academy of Sciences, primarily the Ukrainian History Institute, history departments of the national universities, and other research centers. The Ukrainian researchers were finally able to see, after many years of forced isolation, the huge number of projects conducted at the Western centers of Ukrainian studies.

However, it is not only professional historians who should form and actualize the memory spots that establish national memory as a component of collective conscience. This should become the task of the national policy supported by a broad set of instruments including

history courses at the national school and college curricula;

research projects at the academic institutions, university departments, and non-governmental researcher associations;

activities of museums, national reserves, archives, and libraries that open up access to historical resources for population at large;

protection and popularization of the national historical and cultural heritage;

state-sponsored media educational programs;

various forms of commemoration of national history events and personalities, i.e., construction of monuments and plaques, anniversary celebrations, naming sites, and so on;

putting in order toponymy on the national and community levels;

support to development and distribution of high-quality artistic work set in the historical past, in fic-

tion books of various genres, painting, music, cinema, and so on.

The objective of such national policy should be consolidation of the society and bringing Ukraine closer to the European humanitarian, educational, and cultural standards. It is on the basis of the European principles that we should overcome the colonial stereotypes that were imposed in the past to counter historical facts and dilute the national identity of the Ukrainians.

This policy should be based on consensus of the national elites about the need to reach a broad consolidation for the sake of Ukraine's further progress toward Europe and European values. Arriving at such a consensus is quite difficult in Ukraine as there is limited space for compromise, nevertheless it can be achieved.

Research projects should establish a consolidated perception of the Ukrainian nation as a result of the European historical process, with all its ethnical, political, cultural, and economic factors. That perception should affect the state-level interpretation of the key stages of our national history, among which the following can be noted:

- ethnic genesis of the Ukrainians;
- role of national minorities in the Ukrainian history;
- the heritage of Kyiv Rus and modern Ukraine;
- state-building processes on the territory of Ukraine;
- Ukraine in the Great Lithuanian Principality and Polish Kingdom;
- The Council of Pereyaslav;
- Hetman Mazepa's life and work, and Poltava Battle;
- status of Ukraine in the Russian Empire: an "organic part" or a colony;
- liberation struggle of 1917-1921;
- artificial famines and reprisals of Soviet time;
- World War II / Great Patriotic War;
- OUN-UPA fights.

The interpretation of those historical periods must form a non-controversial historical narrative where adequate attention should be given to the events and personalities that have realized the Ukrainian project, beginning with its earliest stages.

It is crucial that further development of historical memory should be based on proven scientific knowledge and not some farfetched myths, like descent of Ukrainians from the legendary Arata.

Historians must acknowledge that objective reasons existed for the Cossack insurrections, but at the same time they should admit that the Polish State was created, in particular, through the efforts of Ukrainian landlords, nobles, and Cossacks. It was in Rzecz Pospolita that Ukrainians took the democratic institutions for the later Cossack State, the idea of an agreement between the sovereign and his subjects, all of which would later run into a dramatic conflict with the habits of the despotic Moscow Kingdom.

It is imperative to shape public understanding of the events of the 19th and 20th centuries with a view to the development of the Ukrainian political nation. Historians should emphasize the meaning and significance of the Ukrainian choice made in that time by the key figures in politics and culture. It is principally important within that context to explain the dichotomy "Shevchenko's choice against that of Gogol" and follow it up through the modern Ukrainian history.

It should be underlined that Ukrainians took part in World War II and not the Great Patriotic War, however it should be noted that the Ukrainian Soviet Socialist Republic finished the war with the status of a winner, as a formal full member of the anti-Nazi coalition and the United Nations, with

its own departments for foreign affairs and defense (the Soviet historians tried hard to bury the information about the work of a separate though nominal People's Commissariat of Defense of the Ukrainian SSR in 1944 and 45, and particularly the efforts of General Herasymenko, the Ukrainian Defense Commissar who tried to build up a real Ukrainian army).

The crimes of the Soviet Army must be revealed once and for all, such as putting to death thousands of youths mobilized in the Left-bank Ukraine who were sent, untrained and unarmed, to force the Dnieper River in 1943, or the genocide against the civilian population of East Prussia.

The new memory spots should be founded on the names and events from the national narrative that are positively accepted by the society today, such as

the great rulers of Kyiv Rus;

Zaporizhya Sich and the Cossack age, Bohdan Khmelnytskyi as the statesman;

cultural phenomenon of the Ukrainian baroque within the European context;

Ukrainian national renaissance of the 19th and 20th centuries: outstanding poets, writers, composers, and scholars, from Ivan Kotlyarevskiy to Mykhailo Hrushevskiy;

role of Ukrainians in the key events of the 20th century;

terrible losses of the Ukrainian people in the 20th century that were orchestrated by the totalitarian regimes: the red terror, famines, reprisals, World War II, and others.

At the same time, the national holiday calendar, Ukraine's toponymy, and the memorials in its towns and villages should be cleansed of the Soviet relics such as the Motherland Defender Day on February 23, or monuments and place-names that glorify tragic events and butchers of the Ukrainian people.

The work should be coordinated by the Ukrainian Institute of National Memory (INM) that could be given a special status as an executive agency. The INM would not have to duplicate the research work carried out by the Academy of Science institutes and university departments. Its main function should be coordination of the efforts of historians and representatives of political elites to develop a single vision of the past events that are often controversial for some people. The Institute should work to reach a high degree of national consolidation and establish the national vision in public mentality with the help of the policy instruments mentioned above. The INM would have to devise effective mechanisms of cooperation with other institutions, particularly the Academy of Sciences, Ministry of Education and Science, Ministry of Culture and Tourism, State Committee for TV and Radio, local self-governments, and so on. The scale of the job to be done requires that the role and status of the INM be elevated, and its work should become a priority for the national humanitarian policy.

## **6.5. THE ROLE OF THE CHURCH AND RELIGIOUS ORGANIZATIONS IN THE SPIRITUAL CONSOLIDATION OF UKRAINIAN SOCIETY**

The consolidation potential of the Church as a social institution should be used to the best advantage for the spiritual unity of Ukrainian people, the integrity of the state and cohesion of the nation. Given the complex confessional picture of present-day Ukraine, it is very important that every church, confession and religious organization find its place in this process and have fitting conditions for the realization of its lofty social mission.

The two "traditional", or "historical" churches with Kyiv roots - the Orthodox and later the Greek Catholic Church - have played an enormous role in the forming of the Ukrainian identity and the preserving of its cultural and spiritual distinctiveness. Today's Ukraine needs to analyze this unique historical experience.

Since it opted for democratic reform, Ukraine has been consistent in supporting the principles of political, ideological and religious pluralism. There is every reason to believe that on the whole it has created a favorable environment for the freedom of religion, historically the cornerstone of all freedoms of the individual as they are understood by the European civilization.

The growth of religious organizations in Ukraine is a clear sign of the freedom of religion. Their num-

ber increases by at least one thousand local chapters a year. According to the State Committee on Nationalities and Religions, the total number of religious organizations in Ukraine at the beginning of 2007 exceeded 33,000 as opposed to 32,200 in the same period of 2006.

Their denominational spectrum is also broadening. Whereas only nine registered churches and denominations functioned in Soviet Ukraine, their number amounted to 42 in 1991, and 120 in 2007. The latter figure can hardly be final because current laws allow the functioning of religious organizations without registration. In parallel to numerical growth, the Church is recovering its traditional mission in the Ukrainian society.

The State is ready to cooperate with churches and denominations on the principles of partnership, the sphere of which is steadily growing. The State and the Church are working together in areas such as public health, protection of traditional moral values, environmental protection, charitable activities, spiritual education of the young, and service to society, to name a few.

President Viktor Yushchenko is consistently showing an equal attitude and respect for all beliefs and denominations without exception, which creates a sound foundation for the harmonization of inter-confessional relations and promotes tolerance among religious people and the unity and spiritual consolidation of society as a whole.

In this, doctrinal unity is absolutely not the goal. We are talking about spiritual consolidation around universal values such as kindness, compassion, solidarity, justice, love for your fellow man and your country. The only possible path toward peace and stability along which the Church and the State as partners should lead the Ukrainian nation is that of asserting tolerance and mutual respect in society's religious life.

Its invariably high authority in society is another argument for the participation of the Church in the consolidation of the Ukrainian nation. It is the social institution that the Ukrainians trust most. According to a survey conducted by the Institute of Social and Political Psychology of the Academy of Pedagogical Sciences of Ukraine, whereas in February 2006 the rating of the population's confidence in the Church was 57.9 %, it came up to 59.3 % in May-June 2007. To compare, the education system and the Armed Forces had the trust of 48.8 % та 44 % respondents respectively. An analysis of the balance of confidence indicator shows an even more striking contrast. A poll by the Democratic Initiatives Foundation and the Ukrainian Sociology Services in June-July 2007 revealed that the balance of confidence in the Church was +44 %, the Armed Forces +17%, the Verkhovna Rada -46 %, the courts -43 %, and the Cabinet - 27 %.

Alongside certain achievements in the field of building up the consolidation potential of churches and religious organizations, society-religious and state-religious relations in Ukraine still have a number of unresolved problems.

Restitution of church property confiscated during the Soviet period is one issue that demands urgent resolution. A substantial number of church buildings and other assets have been returned to religious organizations over the years of independence, but finalization of this process is hinged on improvements in the restitution procedure, as PACE Resolution # 1466 points out unequivocally.

Unfortunately, the past two years have seen little progress on this path. In accordance with a presidential decree, an interdepartmental commission was set up to prepare proposals on restoring the rights that had been violated in the past as a result of totalitarian practices to churches and religious organizations in Ukraine. But its work has had little effect.

In September 2007, a working group was set up by a joint directive of the Ministry of Justice and the State Committee on Nationalities and Religions to draft a law on returning former cult structures and other church property to religious organizations. If adopted, it could substantially reduce property conflicts that remain the source of tension in inter-confessional and state-church relations. In 2007, such conflicts took place in Bukovyna, Transcarpathia, Volyn, Rivne and Chernihiv oblasts, the Autonomous Republic of Crimea, and Kyiv.

In 2007, the problem of protecting and preserving cultural heritage sites transferred to religious organizations for use exacerbated. Two cases of premeditated damaging of frescoes - in churches of the National Kyiv-Pechersk Historical and Cultural Preserve and St. Cyril's Church, a part of the

National Preserve Sophia of Kyiv - and the news of construction works causing a collapse in the caves of the Kyiv Caves Monastery raised public concern. In this context, the prospects of three individual properties of the Kyiv Caves Monastery transferred to the Ukrainian Orthodox Church of the Moscow Patriarchate (the gatehouse of the Hospice, the Southern Tower and the Church of Our Savior at Berestove) look even more disturbing. Regulatory loopholes and drawbacks in historical site protection activity have led to a real threat of losing control over this national shrine, which may cause UNESCO to strike the Kyiv Caves Monastery from its World Heritage List.

A systemic reform of legislation on the freedom of conscience and religion is in order. Notwithstanding its substantial contribution to the democratization of state-religious relations, the basic Law of Ukraine On the Freedom of Conscience and Religious Organizations of 1991 can no longer regulate the entire spectrum of issues in the religious sphere. The law is not free of internal contradictions and some of its provisions conflict with other acts such as the Law of Ukraine On Military Duty and Military Service and the Law of Ukraine On State Registration of Legal Entities and Physical Persons-Entrepreneurs.

The drafting in 2006 of a new version of the Law of Ukraine On the Freedom of Conscience and Religious Organizations ended in a public discussion. The draft law was never submitted for consideration by the Parliament. Further procrastination in this matter is only fuelling religious tensions.

In order to harmonize social-religious and inter-confessional relations, the national model of state-religious relations needs to be upgraded. Ukraine's European choice makes it even more necessary to examine EU countries' standards of constitutionalizing state-religious relations. Primarily, this has to do with the practice of translating relations between state institutions and religious organizations into contractual terms. This mechanism effectively regulates the rights and duties of the parties, stimulating cooperation on a partnership basis. The European experience of encouraging ecumenical thinking and a dialog among different churches and religious movements is also noteworthy. It is especially valuable in the light of inter-confessional contradictions and conflicts in Ukraine today.

The Ukrainian Greek Catholic Church (UGCC) is showing its readiness for an open inter-confessional dialog. It was under its auspices that an ecumenical concept was adopted and an institute for ecumenical studies organized. UGCC is actively integrating into the European ecumenical context. In September 2007, its delegation took part in the III European Ecumenical Conference in Romania.

Regrettably, this practice is not widespread among other Ukrainian churches and denominations. In a vast majority of cases, they continue to operate categories such as canonical/noncanonical, righteous/unrighteous and faithful/infidel, widening the divisions among the adepts of different confessions and narrowing the potential for a dialog and common action.

Excessive politicization is a major source of conflict in the religious community. Beginning from the early 1990s, political parties and blocs adopted the practice of recruiting the support of influential religious organizations in the election campaigns. Experts note, however, that religious organizations were considerably less politically engaged during the early parliamentary election of 2007 than in the election campaigns of previous years.

Unfortunately, the activities of a number of quasi-religious public organizations such as The Union of Orthodox Brotherhoods of Ukraine, The Union of Orthodox Citizens of Ukraine and the All-Ukrainian Union for Orthodox Choice have a destructive nature. Their representatives publicly spread anti-Ukrainian rhetoric and sow intolerance among adepts of different confessions. Their activity is aimed at destabilizing the situation in the country. As such, it is a threat to national security and a subject for the attention of law enforcement agencies, the Security Service and the Office of the Prosecutor General.

The schism of the Ukrainian Orthodoxy is not adding to social stability, either. The Ukrainian Orthodox faithful are deeply aggrieved by their confessional disunity. It is becoming increasingly obvious that the two branches of Ukrainian Orthodoxy have different purposes in the cause of national consolidation. The feelings of the faithful are offended when members of the clergy question the existence of Ukraine a state, exploit the old myth of "eternal Orthodox unity of Orthodox peoples" and undermine citizens' loyalty to their own country.

The Orthodox faithful are urging to restore the communion of Ukrainian Orthodoxy in a Ukrainian

Local Orthodox Church (ULOC), which would be a truly national church in its spirit and in its mission. The idea of establishing ULOC is supported by 30 % (according to a Razumkov Center poll in 2006) to 50.5 % of respondents (according to a poll by the Kyiv International Institute of Sociology in 2007).

This idea is not a subject of government policy. Orthodox unity should emerge as an expression of the will of the faithful themselves, its foundation being laid by the joint effort of Orthodox churches. The State, however, should promote the establishment and recognition of ULOC by all means within the law, because consolidation of the Ukrainian Orthodoxy can speed up the formation of a national identity and therefore foster the unity and integrity of Ukraine.

Processes going on among the Muslims of Ukraine require a system analysis and an adequate evaluation. In the Crimea, politicized Islamic organizations such as Hizb ut-Tahrir, Tabligi Jamaat and Al-Jama'a Al-Islamiya have recently been joined by Al Ahbash (the Habashis) - an Islamic movement that is prohibited in a number of countries. Radicalization of the Crimea's Muslim community is a very undesirable development, and the government should carry on an equal dialog with Muslim leaders and create adequate conditions to accommodate the religious needs of the adherents of Islam.

A special role in the harmonization of inter-confessional relations belongs to the All-Ukrainian Council of Churches and Religious Organizations. It has experience of conducting inter-confessional dialog and is an effective instrument of improving state-church relations. Other inter-church associations such as the Conference of Representatives of Christian Churches and the Council of Evangelical Protestant Churches of Ukraine are also working successfully in this field. At the initiative of President Yushchenko, regional religious councils have been set up in the majority of the oblasts. They make an important contribution to the broadening dialog between the authorities and religious organizations at the regional level, initiating ecumenical meetings, monitoring the observance of legislation on the freedom of conscience, and preventing conflicts on religious grounds.

Institutions of civil society such as the Ukrainian Association of Students of Religion, the Ukrainian Association for Religious Freedom, the Institute for Religious Freedom and the Religious Information Center conduct important intermediary activity in establishing cooperation between the State and the Church. Their high professional qualifications allow their representatives to be successful go-betweens both in inter-confessional exchanges and in the cooperation between the authorities and religious organizations.

The Ukrainians are a religious nation: 55-60 % respondents identify themselves as believers. It is clear that religious is far from the least factor in determining the Ukrainians' world outlook, values and moral standards. Their spiritual unity depends on a harmonized religious environment, which in turn will promote the nation's spiritual unity. To that end, the State should direct its efforts to:

- establishing religious freedom and confessional pluralism;
- ensuring an equal attitude to all faiths and religious organizations;
- updating the country's law on religion and ensuring its unconditional observance by all individuals and organizations;
- broadening the sphere of social partnership of the State and religious organizations (in part, on a contractual basis); and
- counteracting the politicization and radicalization of the religious environment.

## **6.6. ETHNOPOLITICAL PROCESSES IN UKRAINE AND THE OBJECTIVES OF STATE ETHNIC POLICY**

Ukraine is a polyethnic country, with 77.8 % of the population being ethnic Ukrainians and 22.2 % representing ethnic minorities. Among the latter, 77.8 % are ethnic Russians, which amounts to 17.2 % of the entire population. The other ethnic communities constitute almost 4.5 % of the total population.

The current ethno-political situation of Ukraine should be regarded from a number of points of view

such as the nature of relations between ethnic communities, trends and intensity of their ethnocultural development, the direction and nature of migration processes, the presence of factors causing ethnic conflicts, and the quality of ethnopolitical management on the part of the State - in particular, the availability of effective instruments for prevention and regulation of interethnic conflicts.

In the years of its independence, Ukraine has avoided dramatic interethnic conflicts similar to those in other post-Soviet countries. This attests to the largely balanced ethnic policy of the government, the sufficiently high culture of interethnic relations, and the sustained tradition of tolerance in the Ukrainian society.

At the same time, the nation's polyethnic composition requires a modern national policy capable of adequately and effectively responding to changes in the ethnopolitical situation, the predictability of which is a guarantee of the country's social and political stability and an indispensable condition for a more rapid consolidation of Ukrainian society.

Ethnic policy is a component of both the domestic and foreign policy of a state. It is an aggregate of consistent decisions and actions by the national government and local self-government institutions aimed at meeting the social, political and cultural needs of ethnic communities and their individual members on the basis of interethnic tolerance and national unity.

Effective ethnic policy is a decisive criterion of a country's capability and willingness to introduce democratic norms and principles and assert European standards of ensuring the rights and freedoms of its citizens.

A broad regulatory framework ensuring ethnic minority rights is in place in Ukraine today. However, it is in need of substantial improvements in order to remove a number of conflicts of law and harmonize the legislative sphere with international standards.

By becoming a member of the Council of Europe, Ukraine pledged to implement a number of legal norms adopted by the CE and the OSCE. Pursuant to Decree # 39/2006 of the President of Ukraine On the Plan of Actions to Fulfill the Duties and Obligations of Ukraine that Arise from Its Membership in the Council of Europe dated January 20, 2006, the existing political and legal basis of regulating ethnopolitical processes should be improved and the national legislation adapted to appropriate international law, in part, the Framework Convention of the Council of Europe for the Protection of National Minorities and the European Charter for Regional or Minority Languages. The modernization of ethnopolitical legislation should also take into account OSCE recommendations on further protection of the education and linguistic rights of ethnic minorities (the Hague Recommendations of 1996 and the Oslo Recommendations of 1998, respectively).

Of special importance are the Lund Recommendations on the Effective Participation of National Minorities of 1999. They urge member states to create special mechanisms for participation of ethnic minorities in state governance, provide them with guaranteed representation quotas in parliaments, and set aside certain executive and judicial posts for them (in part, in the Supreme and Constitutional courts), as well as a number of positions in local government bodies and in high-level advisory institutions, to name a few.

Admittedly, a number of key definitions used in the ethnonational sphere, among them such categories as "national minorities" and "indigenous peoples", are absent from applicable Ukrainian legislation.

Clear criteria for classifying some of Ukraine's ethnic communities as national minorities are lacking. To date, national minorities are understood as groups of Ukrainian citizens who are not ethnic Ukrainians and who are aware of their ethnicity and identify with one another. This definition, however, does not refer to any numerical indicators or factors such as the time frame of residing in a given territory or the availability of registered material and cultural heritage monuments.

One relevant document that is still awaiting implementation is Decree # 154/2006 of the President of Ukraine, dated February 28, 2005, On the Resolution of the National Security and Defense Council of Ukraine "On the Social Situation in the Autonomous Republic of Crimea" of February 8, 2006 Regarding the Drawing up and Adoption of the Law of Ukraine On the Concepts (Basic Principles) of the State Ethnonational Policy. The Parliament has to approve this concept paper before it can

pass a number of other acts that regulate interethnic relations and provide for the systemic development of ethnolnational legislation and its full harmonization with the Ukrainian Constitution and the standards of the Council of Europe and other international organizations. The acts in question include, among others, a new version of the Law On National Minorities and the passing of the Law On National and Cultural Autonomy.

Another topical issue is the adoption of the Law of Ukraine On Restoring the Rights of Persons Deported on Ethnic Grounds, which will create conditions for overcoming contradictions in the legal framework of the repatriation process, provide legal groundwork to the State priorities regarding social integration of former deportees, and reduce the protest potential among repatriates, primarily Crimean Tatars.

The government should give proper attention to the demands of the political leaders of the Crimean Tatars regarding a legal definition of the political and legal status of the Crimean Tatar people and all rights that may arise from it. This issue became even more topical after the adoption of the UN Declaration on the Rights of Indigenous Peoples in 2007 (Ukraine was among the 11 countries that abstained from signing it), as the Ukrainian Constitution deals with "indigenous peoples" in Articles 11, 92, 119.

Other topical ethnopolitical issues include the need to improve the interaction of the government and the civic organizations of national minorities in the matter of preserving and developing their cultural, linguistic and religious identity. As of January 1, 2007, nearly 1,200 civic organizations of national minorities were active in Ukraine, of which 35 had a nationwide status. Civic organizations such as the Council of National Associations, the Congress of National Communities of Ukraine, and the Association of Ethno-Cultural Associations of Ukraine are working effectively to foster the intercultural dialog and mold the public opinion on the outstanding ethnic policy issues.

The authorities step up their joint efforts with the activists of ethnic and cultural organizations to preserve the languages, culture and traditions of national minorities. The methods and forms used include a variety of cultural and awareness raising events such as festivals, conferences, contests for the best knowledge of the native language and culture, and publication of literature and schoolbooks in minority languages. This activity is financed within the framework of the budget programs "Measures to Revive the Cultures of National Minorities and Financial Support of Newspapers in Minority Languages" and "Measures to Implement the European Charter for Regional or Minority Languages".

At the same time, some national minority leaders attempt to use efforts aimed at supporting and preserving ethnic identity to mobilize their ethnic communities for political ends. This is true for a number of public organizations of the Russian, Crimean Tatar, Hungarian and Romanian national minorities. Although political parties built on the largely ethnic principle are not popular in Ukraine, organizations such as the Russian Movement of Ukraine, the Democratic Party of the Hungarians of Ukraine, the Political Party "KMKS Party of Ukrainian Hungarians" and the recently disbanded Party of Ukrainian Muslims wield certain influence on the ethnopolitical situation in the country. Kurultai and Mejlis, the representative organs of the Crimean Tatar people, are pressing for official recognition of their political and legal status. It can be predicted that their claims will become more persistent because of the exacerbation of the situation in the Autonomous Republic of Crimea in November 2007.

Public organizations of national minorities focus primarily on the improvement of the regulatory framework and the cooperation with central and local authorities on the most burning issues such as funding for cultural activities and payment of the rent and communal services for their organization centers, as well as removal of obstacles for their free contacts with their historical home countries.

Some national minorities exert significant influence on the socio-political situation in their compact settlement areas. These are Crimean Tatars in the Crimea, ethnic Hungarians in Transcarpathia, Romanians in Bukovyna, Bulgarians, Gagauzians and Moldovans in Odessa Oblast, Greeks in Donetsk Oblast, and Poles in Zhytomyr Oblast. This calls for a balanced ethnic policy on the regional level and heightened attention on the part of local authorities to fulfilling the linguistic and cultural needs of Ukrainian citizens - members of national minorities and ethnic groups.

In absence of large-scale conflicts, the ethnopolitical situation in Ukraine has nonetheless shown a number of negative trends in the past few years. There is a growing social gap between some national groups, and interethnic tolerance is decreasing. Beginning 2001, Ukrainian citizens have been increasingly distancing themselves from other ethnic groups such as the Azerbaijanis, Arabs, Afghans, Crimean Tatars, Moldovans, Romanians, Hungarians, Turks and the Roma. Xenophobic sentiments have been observed in respect of nationalities associated with war, conflicts and terrorism - Arabs, Afghans and Chechens. Ukrainians, Russians and Ukrainians living abroad enjoy the greatest tolerance, and Jews, Belarusians and Poles can be added to this list with certain reservations. All these trends make it even more necessary to strengthen government policy for the benefit of greater tolerance in interethnic relations.

An important aspect of this policy is the rights of the Russian ethnic minority and, in part, its linguistic and cultural needs. This segment of ethnic policy needs increased and permanent attention of the government.

Today, Russian is the language of about 40 % of all printed mass media in Ukraine. Russian TV channels are broadcast without limitation. There is a broad network of Russian-language general education establishments: Russian is the language of tuition at 1,411 state-run general education schools and one of the two tuition languages at 2,109 schools in Ukraine. In the academic year 2006/2007, 6.53 % of Ukraine's general education schools taught in Russian. The numbers of students in general education schools with the Ukrainian and Russian languages of tuition amounted to 78.2 % and 20.7 % respectively. In higher education establishments, these figures were 82.1 % and 17.7 %.

These data show that ethnic Russians in Ukraine have sufficient means to exercise their linguistic and cultural rights. The State de facto gives them the rights of a national and cultural autonomy, including an extensive system of secondary and higher education establishments teaching in Russian and unlimited access to information in their native language, in part, a broad range of Russian-language cultural amenities and the enormous wealth of Russian-language library stock. In some regions, however, it is necessary to analyze the correlation between the facilities currently available and the numbers of ethnic Russians and their articulated needs.

In 2002-2007, a certain increase in anti-Semitic sentiment was observed in large industrial cities with sizeable Jewish communities, among them Kyiv, Odessa, Dnipropetrovsk, Kharkiv, Zhytomyr and Simferopol. Extremist organizations with anti-Semitic and neo-Nazi leanings are stepping up their activities. The notorious Inter-Regional Academy for Personnel Management continues to freely publish anti-Semitic materials. Xenophobic and anti-Semitic movements are exporting their products to Ukraine from the Russian Federation without hindrance.

At the same time, the Ukrainian Government is making systemic efforts to eliminate anti-Semitism and create proper conditions for ethnic Jews to exercise their religious and cultural rights. More synagogues and sacred scrolls of the Torah, preserved in the National Archives of Ukraine, have recently been transferred to Jewish communities. The Prosecutor General's Office pays special attention to all attacks against Jews or Judaic religious structures.

Sociological surveys show a pronounced trend among a part of the population to distance itself from the Crimean Tatars. There is a growing unwillingness to see them among the country's citizens. It should be noted that an overtly biased attitude toward the Crimean Tatars is generated by individual media and pro-Russian political and civic organizations. If this tendency persists, there is the danger that the negative image of the Crimean Tatars will become a stereotype among other inhabitants of the Crimea and Southeastern Ukraine - a development that can hardly help harmonize the ethnic relations in the peninsula and the country at large.

In recent years, the Ukrainian government has done much to help repatriates get a new start in life, integrate into society and meet their cultural and religious needs. The implementation of the Program for the Settlement and Social Adjustment of Deported Crimean Tatars and Representatives of Other Nationalities Who Have Returned to Ukraine for Residence, and Their Adaptation and Integration into Ukrainian Society for the Period up to 2010 is under way.

The repatriates' social adjustment, however, is far from complete. The number of Crimean Tatar schools is insufficient (only 15 schools for more than 5,000 students), and so is the number of pre-

school daycare centers for children from Crimean Tatar families. Only two newspapers are published in the Crimean Tatar language, and the Crimea State TV and Radio Company gives it as little as 7 % of its airtime.

The most urgent problem, however, is that of land allocation. The development of a complete cadastre of Crimean lands, especially in the Southern coast, is long overdue. The process of land allocation must become legal and transparent. In 2007, the Crimean Tatars staged several protest actions over the "land issue". Last November, an open confrontation broke out, which had a negative impact on the ethnopolitical situation in the Crimea.

In 2006, the President of Ukraine issued Decree # 154/2006, dated February 28, 2006, On the Resolution of the National Security and Defense Council of Ukraine "On the Social Situation in the Autonomous Republic of Crimea" of February 8, 2006 and Decree # 822/2006, dated October 9, 2006, On the Resolution of the National Security and Defense Council of Ukraine of September 20, 2006 "On Implementing the Resolution of the National Security and Defense Council of Ukraine 'On the Social Situation in the Autonomous Republic of Crimea' of February 8, 2006. These acts provide for concrete measures aimed at harmonizing interethnic relations in the peninsula, ensuring the cultural and linguistic rights of national minorities, and strengthening the legislative framework of the State's ethnic policy. Proper observance of these acts by the central and Crimean government agencies will substantially improve the social situation in the region.

There is a circle of problems impeding adequate satisfaction of social needs of the Roma minority. By 2006, the Government had implemented its National Program for the Social and Spiritual Revival of the Ukrainian Roma. As of January 1, 2007, 88 non-governmental Roma organizations were in existence, among them the Union of Civic Organizations "Congress of the Roma of Ukraine". At the same time, the level of fulfillment of the linguistic, educational, information and cultural needs of the Roma remains low. Their educational level is the lowest among Ukraine's national minorities. Their integration into Ukrainian society remains an open question.

Despite the aforementioned problems, however, the general atmosphere of interethnic relations in Ukraine can on the whole be described as that of tolerance. According to the Institute of Sociology of the National Academy of Sciences of Ukraine, the percentage of citizens who are afraid of ethnic conflicts dropped from 48.9 % in 1992 to 19.2 % in 2006. Those lacking confidence that such conflicts will not occur in future decreased from 53.6 % to 49.0 %. At the same time, the share of those missing mutual understanding among people of different nationalities increased from 27.1 % to 36.6 %.

Yet, subjective factors cannot serve as exhaustive indicators of the country's ethnopolitical situation. To answer the question of whether interethnic relations can deteriorate up to a conflict threshold, one needs to analyze issues that most frequently cause interethnic tensions. Such issues include the level of social competition among ethnic communities, their access to and participation in governance and management, and the presence or absence of threats to their traditional values. The perception that they are underrepresented in the most prestigious (lucrative, popular, well-paid, connected to social privileges, etc.) occupations may also become a cause for conflict.

The dynamics of ethnic discrimination cases is an important indicator of the ethnopolitical situation. According to the Institute of Sociology, 85.7 % of respondents said in 1994 that they did not come across any discrimination against Russians, and 92.8 % gave the same reply in 2006. Regarding the Jews, these indicators were 86.0 % and 96.0 %, and regarding other nationalities, 83.5 % and 91.6 % respectively.

Another potential source of ethnic conflicts has to do with the protection of the national minorities' historical and cultural heritage, including monuments, place names, attitudes to historical events and figures, group and individual dignity, and linguistic preferences. It is very important in this context that the State present all ethnic cultures as organic components of a common national culture of Ukraine.

In recent years, there has been a real risk of growing ethnic conflicts due to the increasing numbers of immigrants, many of them illegal. Experts say there are nearly two million persons without Ukrainian citizenship in Ukraine today. Most of the experts think that the vast majority of these peo-

ple regard their stay in Ukraine as temporary.

After the Schengen border made entry into the European Union more difficult, many migrants began to "settle" in Ukrainian territory. This "new" category of immigrants is characterized by: (a) the prevalence of Muslims, (b) a considerable percentage of young people with a high work potential, (c) great percentage of married persons, a substantial part of these being married to Ukrainian women, (d) prevalence of social and economic motives for their presence in this country, (e) dependence of their material well-being on their status (legal/illegal) (f) and strong ethnic group bonds as a means of social and psychological mutual support.

The emergence of new ethnic communities in Ukraine may increase the number of subjects of ethnopolitical relations which will have an imminent impact on the ethnopolitical situation. It may be predicted that interethnic tensions will rise as new immigrants are adapting their traditional values to those of the Ukrainian society.

Thanks to the liberal character of the current Law On Ukrainian Citizenship, naturalization of foreigners and persons without citizenship is not subject to strict limitations. After naturalization, they can have formal pretexts to claim the national minority status and, subsequently, the rights to national and cultural autonomy, state financing of their linguistic and cultural needs, etc.

In this connection, it would stand to reason to introduce, at the legislative level, the status of ethnic groups for recent immigrants as opposed to that of national minorities for communities traditionally residing in the territory of Ukraine.

Despite the fact that the interethnic relations in Ukraine are relatively free of conflicts, one cannot turn a blind eye to a whole string of problems in this area. Their regulation requires a consistent improvement of the state ethnic policy and effective ethnopolitical management.

The State Committee of Ukraine on Nationalities and Religions is the key executive agency for coordination of the work of central and local government institutions relating to the rights of refugees, national minorities of Ukraine, and persons returning to Ukraine from places they were deported to on ethnic grounds in Soviet times. In the Crimea, the Republican Committee on Interethnic Relations and Deported Citizens is in charge of those matters. It is subordinate to the Council of Ministers of the Autonomous Republic.

The current institutional basis of state ethnic policy is in need of improvement. The absence of a streamlined chain of control within the national ethnopolitical management system complicates the work of the Committee on Nationalities and Religions. In 1994-2004, directorates or departments for the affairs of nationalities and migration functioned in every oblast state administration and those of the cities of Kyiv and Sevastopol. In 2007, three oblast state administrations had directorates, six had independent departments, four had departments within different directorates, six had small sections, and the rest had but one officer each for work relating to national minorities. Experts believe that the lack of a unified management system lowers the efficiency and coordination of the government's ethnonational policy on the regional level.

In 2006, the Council for Ethnonational Policy under the President of Ukraine began its work in order to promote civil peace, harmonization of interethnic relations, and advancement of the ethnic, cultural, linguistic and religious identity of national minorities. Its primary task is to develop proposals on the shaping and implementation of a state ethnonational policy aimed at preserving civil accord, harmonization of interethnic relations, consolidation and progress of the Ukrainian nation, promotion of its historical self-awareness, traditions and culture, as well as the advancement of the ethnic, cultural, linguistic and religious identity of national minorities. This advisory council could work much more effectively if it engaged a broader circle of scholars and independent experts, which would make it possible to promptly respond to ethnopolitical challenges.

Summing up, the implementation of the state ethnic policy should focus on the following priority tasks:

to update legislation in the ethnopolitical sphere and adopt the Concepts (Basic Principles) of the State Ethnonational Policy of Ukraine;

- to improve the institutional basis of state management in the sphere of ethnic policy;
- to enhance the advisory function of the Council for Ethnonational Policy under the President of Ukraine by engaging a broad circle of scholars and independent experts in its work;
- to create conditions for equal and unimpeded satisfaction of the cultural, linguistic and religious needs of the national minorities;
- to introduce a system of state monitoring of the ethnopolitical situation in Ukraine to prevent conflicts on ethnic grounds and promptly respond to cases of ethnic discrimination, xenophobia and anti-Semitism;
- to improve the state migration policy by introducing, in part, state programs for social adaptation and integration of immigrant groups in Ukrainian society;
- to step up government measures aimed at the social adaptation of repatriates as envisaged by the State Program for the Settlement and Social Adjustment of Deported Crimean Tatars and Representatives of Other Nationalities Who Have Returned to Ukraine for Residence, and Their Adaptation and Integration into Ukrainian Society for the Period up to 2010;
- to build up a continuous dialog between the national and local government institutions of all levels and the civic organizations and cultural associations of national minorities, and ensure their participation in the discussion and adoption of governance and management decisions; and
- to examine the issue of introducing legal mechanisms for guaranteed representation of national minorities in government, as recommended by OSCE.

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