

Regionalization and Globalization

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**DIRECTIONS
OF ECONOMIC DEVELOPMENT
AND COOPERATION OF VINNYTSIA REGION**

Abstract

Trends of economic development of Vinnytsia region in 2003 are analyzed in the article. The main results of managing investment and credit policy are defined. The authors cast light on growth prospects of the small enterprise, social responsibility of business and major strategic directions of export policies in the region on the grounds of its social and economic development analysis.

Key words:

Economic development, investment and credit policy, industrial production, small business development, relief of social tensions, social responsibility and business ethics, business infrastructure, export strategy.

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Main Results

Analysis of trends of financial and economic development of Vinnytsia region in 2003 showed that the region's direction of economic growth has been maintained. Let us consider the results of such activities from the point of view of some economic developments.

Investment and Credit Policy

It is common knowledge that investments are the major driving force for developing a permanent trend of economic growth. Improvement of the state of attracting investment resources, including by means of deposits of the public, is only possible from the increase of living standards of the population, which is the result of the multiplier effect known in economics [1]. Such a state is defined by the positive dynamics of indicators which are proof of domestic market development, normalization of the financial flows system and resuscitation of investment activities.

It should be noted that the most recent major priorities of regional investment policy have been:

- Refusal to artificially support inefficient enterprises and maximum promotion of competition, especially in manufacturing industry of the agro-industrial complex;
- introduction of transparent bankruptcy procedures of unprofitable enterprises, attracting of industrial investors to such enterprises;
- refusal from putting administrative barriers on the way of concentrating controlling packages of shares in the hands of investors;
- formation of the competitive environment in the market of credit resources and creating incentives for increasing real crediting of the economy;
- motivation of private initiative, particularly in respect of developing farmers' personal subsidiary holdings.

Nowadays we can assert that the above mentioned priorities have gained actual confirmation in practice.

The refusal from artificial support of inefficient businesses accelerated the process of structural reorganization, and the strengthening of the competitive environment created high motivation as to the necessity of investments for modernizing and switching over of production.

Banking institutions of the region actively attracted funds of the population, businesses, organizations, banks from other regions in order to form credit resources for crediting the real sector of Vinnytsia region economy. For October 1, 2003 aggregate credit resources of the region totaled UAH 928 m, having increased 1,5 times, or UAH 325 m in comparison with the respective period of the previous year.

Within last three years regional banking institutions have speeded up their activities with deposits in general, primarily by means of deposits made by the population. In 2000 the increase of the total amount of deposits was 52%, in 2001 – 58%, in 2002 – 77%. For October 1, 2003 the aggregate amount of deposits increased by 48,3% in comparison with the beginning of the year.

In the structure of general credit resources the share of deposits of the public was 42%, in absolute amount it constituted UAH 386 m. In comparison with the respective period of the previous year amounts of deposits of the public increased by UAH 162 m or 1,7 times.

The problem of domestic investments is in its nature not only economic, but also social and ethical. The renewal of the public's confidence in banks may be observed in the region; deposits from the population have been expanding although interest rates of time deposits have been gradually going down.

In our opinion, people's confidence in banks is an important reserve for developing further investing in business.

As is known from experience, foreign investments are usually suspended or significantly reduced before elections. Thus, it is domestic financial markets that will serve as the investment source at the beginning of 2004. In their turn, savings will grow, provided that standards of living rise by means of the increase in jobs, growth of incomes and restoring the citizens' confidence in the state and profit-making organizations. Transparent work with banking institutions and considered regional investment policies should be carried out in this direction.

Under regional investment policies we generally understand principles of behavior and decision-making by local bodies of executive and representative power concerning long-term programs of investments, in particular motivation of investments.

Efficiency of regional investment policy greatly depends on the ability of the administration to balance between interests of business and the local community to achieve long-term goals. On the one hand, it means security of investment recoupment on the extended basis, and, on the other hand, employment, diverse development of the area, and formation of local budget receipts.

Over previous 11 years the share of investments in fixed capital from the state budget decreased from 54,6% in 1990 to 4,6% in 2001. The fastest rates of reduction were observed in the period of hyperinflation in 1992–1993 and worsening of the 1999 financial crisis.

Thus, the main emphasis in regional policy should be placed on promoting private investments as the dominant factor of the investing process in the region.

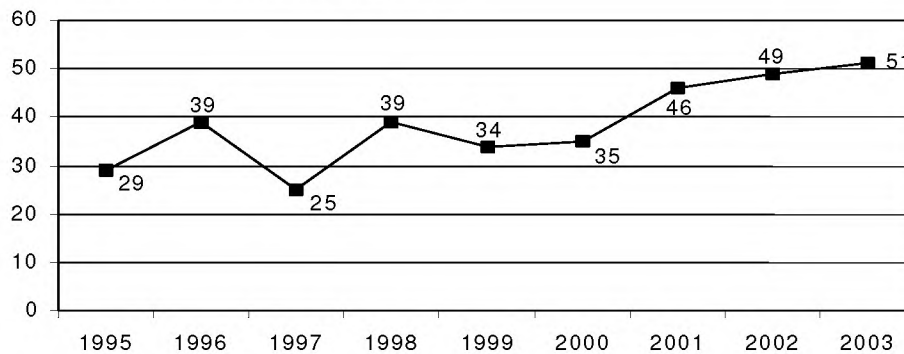
To obtain the constant economic growth which is reflected in real improvement of living standards requires securing annual growth of added value in the region at the rate of 8–10% for 10 years. At the same time, calculations made by the main economic department of Vinnytsia Regional State Administration, show that the increase in use of available production capacities will allow to increase value added growth by less than 8–12%. Today the possibilities for further economic growth of the region by means of the funds accumulated in previous years have been nearly exhausted. According to the same calculations the demand of the production and service industries for securing declared rates of growth amounts about UAH 10 billion. Irrefutable is necessity of taking into account peculiarities of added value structure in the region, where agriculture makes up 37%, manufacturing – 26%, service industry – 37%.

There is a close interrelationship between the general tendency of increasing volumes of production and the improvement of the investment climate which has been observed in the last three years. This is clearly indicated by the change of the technological structure of investments in fixed capital.

Thus, it is at the beginning of the gradual rise in industrial potential (in 2000–2001) that the sharp increase of investments in equipment became uparent in the general structure of investing. In comparison with 1995, investments in equipment in 2001 increased by 17 points and reached 46%. As relating to crediting in 2003:

Chart 1.

Share of investments in equipment, %



- regional banking institutions granted nearly UAH 2,4 billion of credits to business entities, which is 2,1 times as much as in the corresponding period of the previous year;
- financial support to the flows of goods allowed to retain the positive dynamics of increase in volumes of industrial production and provide it a growth rate of 14,5% as compared with 2002;
- opening of the system of financial flows allowed to attract over \$60 m of foreign investments to the regional economy and to reduce the amount of barter operations to 1,8%, practically eliminating them in agriculture (0,2%);
- stabilization of the industrial potential and pricing situation made it possible to increase the average monthly salaries by 25% and repay salary debts of nearly UAH 7 m.

Trends in Industrial Development

One can assert that all branches of food production and processing industries (which are of key importance for the regional economy) have been steadily increasing their output, notwithstanding the complicated situation in agriculture and in the raw materials market. Enterprises of food production and processing industries accounted for 59,3% of the total output of the region and secured a 28,8% growth in comparison with indicators of the previous year.

Rates of recession slowed down in the consumer goods and mechanical engineering industries, and in comparison with the beginning of the year there was economic revival at the enterprises of these industries.

During the previous three years problems of certain major regional enterprises were gradually solved. New promising manufacturing companies appeared in the region and were integrated into its economy. Nowadays they produce the bulk of its output. These are such enterprises as the «Production Company «AVIS», Ltd. (Vinnytsia), the Ukrainian-Austrian Joint Venture «Podillia-OBST» (Vinnytsia), the «Ukrainian Liquor Company «Nemiroff», «Lustdorf», Ltd. (Illintsi District) and others.

In 2003 manufacturing plants of the region had an output of UAH 2413,8 m. In comparison with the corresponding period of the previous year the growth of industrial production was 14,5%. Based on this indicator the region was the fifteenth place in the country (Table 1).

High rates of economic growth in the regional industrial production are explained by an increase in demand for national products in the domestic market and revival of exports.

Table 1.

**Dynamics of increase (decrease) of industrial production volumes
 in Vinnytsia region over the reporting period**

| № | Industries | 2002, % | January– March 2003, % | January– June 2003, % | January– September 2003, % |
|----|--|---------|------------------------------|-----------------------------|----------------------------------|
| | Industry (total) | 4,0 | 9,7 | 12,6 | 14,5 |
| 1 | Mining industry | 16,0 | –4,3 | 9,4 | 15,2 |
| 2 | Food industry and agricul- tural products processing | 10,7 | 23,6 | 26,8 | 28,8 |
| 3 | Consumer goods industry | 2,0 | –9,9 | –9,2 | –5,3 |
| 4 | Timber production | 7,7 | 44,6 | 48,2 | 50,6 |
| 5 | Chemical and petrochemical industry | –20 | –6,5 | 0 | –2,4 |
| 6 | Production of other non- ferrous mineral products (building materials) | 6,8 | 87,1 | 65,5 | 47,4 |
| 7 | Metallurgy and metal proc- essing | –2,7 | 15,7 | 31,2 | 31,7 |
| 8 | Machine-building | 1,3 | –30,7 | –21,1 | –13,5 |
| 9 | Production, not referred to other groupings | 1,0 | 52,0 | 32,9 | 0,5 |
| 10 | Energy, gas and water pro- duction | –12,5 | –15,5 | –18,4 | –16,0 |

The growth of industrial production was facilitated by an increase in competitive advantages of national producers in the food industry, determined in the first place by the price and quality of goods and growth of the domestic construction market. Consequently, it brought about an increase of demand for domestic building products.

The main group of industrial enterprises of the region (310 entities) belongs to the processing industry, which produced 81,1% of the total output. Enterprises of dairy, livestock, liquor and bread-making industries, confectionary and food factories are working steadily. All the subindustries of food and processing industries, in spite of the complicated situation in the raw materials market of the agrarian complex have been constantly increasing production. In 2003 the following rates were reached:

1. In industrial processing of vegetables and fruits – 45,93% increase from expanding production of juices and concentrate of juices, tinned fruits and vegetables. More than 50% of output of this subindustry is produced by the Joint Venture «Podillia-OBST», where production was expanded by 1,6 times. Other enterprises also expanded vol-

umes of production: the Joint Stock Company «Mohyliv-Podil'sky canning plant» – by 2,3 times; the Joint Stock Company «Vinnifruit» – by 46,6%; the Joint Stock Company «Vinnytsia plant of fruit concentrates and wines» – by 37,0%.

2. In fats production – production doubled (by means of renewal of assets and raw materials procurement of the Joint Stock Company «Vinnytsia oil and fat integrated works»).
3. In dairy production – by 26%. Out of 24 such enterprises volumes of production were considerably increased at Murovani-Kourylovtsi dairy plant – by 5,2 times, the Joint Stock Company «Yampil' butter factory» – by 2,1 times, the Joint Stock Company «Vapniarka dairy plant» – by 2,0 times.
4. In manufacturing drinks – by 30%; by means of increase of soft drinks, spirits and horilka production at the private enterprise «Producer company «Panda» – by 13%, Bar liquor integrated works – by 2,6 times, the Private Company «Bershad' brewery» – by 1,8 times, the State Enterprise «Ukrainian liquor company «NEMIROFF» – by 1,6 times.
5. In grain processing and starch production – by 35,1% (by means of the Private Company «Podillia Flour», where the output has been increased 9,2 times; the Joint Stock Company «Vinnytsia bread-making integrated works No. 2» – volumes of production increased by 22,7%).

In production of other food stuffs a 28,3% growth was achieved (chiefly due to effective work of enterprises such as «AVIS» (the 27% growth), the Joint Stock Company «Vinnytsiakhlib» (10,0%), the Joint Stock Company «Vinnytsia confectionery plant» (10%)).

Positive changes in functioning of the food industry occurred due to effective measures taken to extend raw material sourcing, attract investment resources and introduce modern marketing policies.

Increasing rates of growth of Vinnytsia region also became possible because of the growth of construction materials production. Volumes of such production increased by 47,4%. It occurred through the increase of ferro-concrete production (doubled). Hnivan' specialized reinforced concrete plant whose share in this field is almost 60% solely increased production by 2,1 times. Production of bricks increased by 4,3%.

In industries not referred to other groupings the growth reached 0,4%. Vinnytsia plant «Krystal» produces 95% of the output and it increased production by 2,8%. Timber enterprises increased the output 1,5 times as much. The collective enterprise «Kalynivka experimental plant» raised volume of production 1,7 times.

Metallurgical and metal-working plants secured the growth of 31,7%. Specifically, the company «Vintar» reached the growth rate of 2,1 times, the producer commercial company «Avesta» – 2,0 times; the Joint Stock Company «Vinnytsia tool-making plant» – 5,4%; Vinnytsia training and production enterprise of Ukraine's society of the blind – 3,6%.

In the mining industry volumes of production increased by 15,2%. Correspondingly, volumes of production at the Joint Stock Company «Ivanivtsi specialized quarry «Ukrdorbud» increased 4,7 times as much; at the Joint Stock Company «Stryzhavka quarry» – 1,8 times; at the Private Company «Hlukhivtsi kaolin concentrating mining integrated plants» – by 38,6%; at the Private Company «Hlukhivtsi kaolin plant» – by 9,3%.

Trends in Small Business Development in Vinnytsia Region

The theory of business suggests the following classifications of entities:

- small business «preventing poverty» – these are mostly entrepreneurs – natural persons, who do business in the marketplace or provide small personal services. The distinctive feature of this stratum is self-employed population, doing business to satisfy their basic needs and having no ambitions as to expansion of business;
- steady small business – these are mainly enterprises, which are engaged in trade, public catering, services as well as in production; they have comparatively small but stable volumes of income, certain fixed assets, but more often than not also have no ambitions as to significant expansion of business and its extensive growth;
- «tigers» of small business – these are small business entities, whose sales volumes correspond to the definition, but they tend to grow rapidly and have big ambitions. Such companies, as a rule, seek for and possess their own «know-how», introduce the latest management systems including those of quality control and are the best base for innovations [2: 61].

Nowadays small business in Vinnytsia region plays an important part in the formation of the middle class. The latest monitoring research revealed positive dynamics in its development. At October 1, 2003, 7317 small enterprises operated here. In 2003, 11375 newly-formed businesses started their activities, which is a 25,8% increase in comparison to the similar period of the previous year. It should be noted that the number of individual entrepreneurs is 105198, a growth rate of 28%. The number of legal entities (small enterprises) is 857, 4%

growth. The growth dynamics may be explained by more favorable conditions of taxation of individuals in comparison with enterprises.

An analysis of budget revenues showed that the role of small business as their source becomes more significant. Thus, 25% of total revenues of local budgets come from small and middle business. Almost 34% of enterprises and 33,4% of individuals work under the simplified taxation system. The share of the single tax in receipts of governments of all levels has risen by two times over the last 3 years and now makes up approx. 5%.

In general one can observe the improvement of the state of financial support given to small business from the regional budgetary funds. In 2003, UAH 4050,0 thousand of the local budget was provided for such purposes, UAH 4025,0 thousand having been financed by October 1. All local budgets of districts and towns provide funds for developing small business.

In Vinnytsia region farms are beginning to develop intensively. At October 1, 2003, 1467 farms were registered, 87% of which operate today. In January-September 2003 alone, 87 farms were set up. Based on the quantity of workers and the specifics of financial and economic activities, farms are a subset of small businesses in rural areas. Therefore, it should be noted that the index of quantity of regional small businesses, including farms, is 50 small businesses for every 10 thousand people.

Summing up the development of small business in the region and taking into account the above mentioned classification [2], one can conclude that only the first two layers of business subjects are clearly represented in Vinnytsia region, whereas the third layer which deals in intellectual property (know-how, certification of products, franchising, etc.) has a big potential for its development in a very near future.

The spread of small business implies not only economic development of the society but also its social maturity. It means the formation of the positive conditions for doing business on the basis of common historical values of personal interrelationships and relief of social tensions. In this sense social responsibility of business acquires particular significance.

Social responsibility for moral and ethical state of an organization can be represented in the following way (Chart 2). At present the main ethical priorities of a businessperson should be:

- certainty about usefulness of his work not only for himself but also for the society in general;
- being a person who is eager and able to work efficiently and realize his/her potential;
- confidence in business, treating it as an art; recognition of the necessity of competition and a simultaneous desire for cooperation; respect for another person and for property of any kind, state power, political

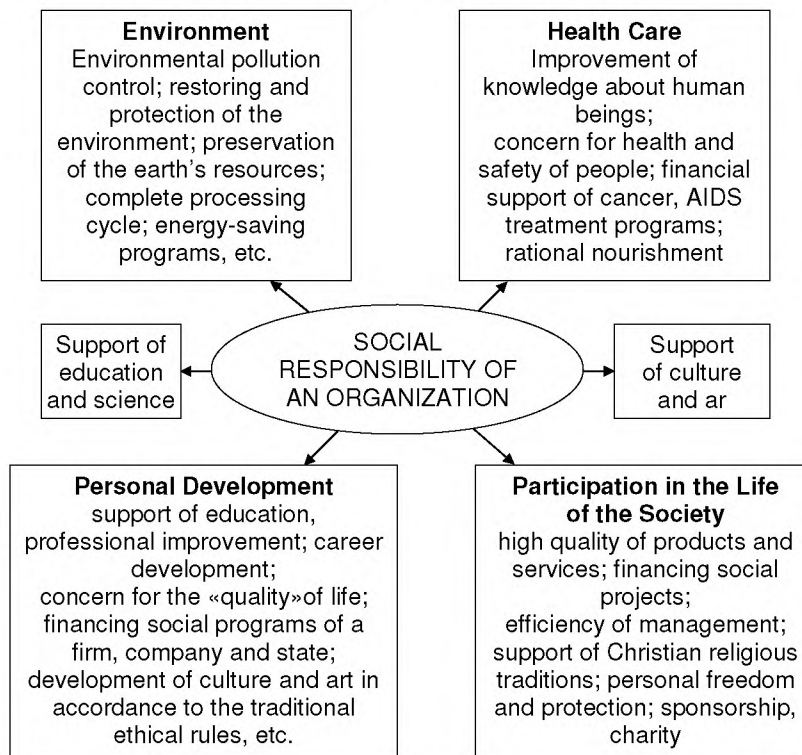
system; observance of laws; trust in others, respect for professional skills, recognition of values of education, science and culture; awareness of the necessity to meet ecological standards; strivings for innovations; humanism; support of less protected people; return to modes of behavior in the spirit of Christian historical traditions of Ukrainians, ethical and cultural values.

Inculcating ethical conduct in business is crucial for its success, especially in such spheres as trade, services and medicine.

It has been long established in the economically developed countries that concern for ethical rules of behavior is directly proportionate to living standards of the people.

Chart 2.

Social responsibility of an organization



The Main Directions of Export Policies of Vinnytsia Region

Vinnytsia region as an administrative and territorial unit of Ukraine has significant potential in various branches of social and economic development, which offers positive dynamics in cooperation both with EC countries and other countries of the world.

About 40% of output of the region's enterprises is exported to more than 100 countries of the world. Major trading partners are the Russian Federation, Germany, the USA, and Republic of Belarus'.

The region exports and has further opportunities for increase in exporting of equipment of industrial automatics, systems of weight measuring, the equipment, systems of monitoring electrical transmission networks produced by the research enterprise «InnoVinn»; equipment and software for digital photometrics and cartography including color photogrammetric scanners and stations made by the state enterprise «Geosystema»; high-quality diamonds, equipment and tools for diamond grinding made by the state enterprise «Krystal» plant; a wide variety of weapons: combat pistols, carbines, hunting rifles produced by the research and production corporation «Fort»; high-quality products of the Ukrainian liquor company «NEMIROFF» and the Private Company «Vinnytsia liquor plant», which are in great demand among consumers in many countries.

Consumer goods industry plays an important part in the economy of the Vinnytsia region. In spite of some unfavorable conditions, this sphere managed to maintain high volumes of production. Owing to this, qualified staff and high-quality equipment were retained and are actively being used for manufacturing and exporting of goods to dozens of countries. Because of their high quality and reasonable prices these goods are in great demand in Germany, Italy, France and other EC countries.

The agro-industrial complex is a branch which possesses significant export potential. Vinnytsia region boasts rich land resources. It has been long called «the sugar Donbas» (20 sugar-refineries operate here).

The Regional State Administration supports the development of various forms of business. It provides stimulus for effective development of collective enterprises, joint stock companies, and joint ventures.

Vinnytsia region possesses significant deposits of rare minerals. The largest group includes non-ferrous minerals, primarily natural construction materials (approx. 800 items).

At present 15 deposits have been extracted and effectively used. First among them are the kaolin deposits.

On the territory of Mourovani Kourylovtsi district rich deposits of fluorite have been discovered. This is a unique deposit in Ukraine, which is able to completely satisfy the domestic and foreign companies' needs.

Granite deposits are situated almost all over the territory of the region but its industrial mining is carried out at 12 locations with the total output of 6 m cubic meters a year.

On the territory of the region there is the only deposit of garnet in Europe. This mineral is used by metallurgical plants of Zaporizhia and Kryvyi Rih. The semiprecious stone opal has been found in ten groups of minerals.

The foreign trade turnover of Vinnytsia region in January-September 2003 increased by 31,7% (as compared to the similar period of the previous year) and amounted to \$321,7 m. In general volumes of exports increased (by 31,9%) and amounted to \$206,9 m. Volumes of exports per capita were \$118,0. Volumes of imports increased by 31,4% and amounted to \$114,7 m. The favorable balance of foreign trade was \$92,2 m. The Vinnytsia region is in ninth place in Ukraine based on the indexes of foreign trade efficiency.

The number of countries with which enterprises of the region have foreign economic relations is increasing. In January-September 2003 Vinnytsia region cooperated with 84 countries.

Trade flows in foreign trade turnover of the region are divided in the following way: Europe – 47,2%, CIS countries – 38,9%, Asia – 7,9%, America – 5,8%, Africa – 0,3%.

Enterprises of the region do business with all the 15 countries of the EC. Nine months of 2003 resulted in \$90 m of foreign trade turnover with EC countries, which exceeded the corresponding period of the previous year by 23,5% and amounted to more than 30% in the total goods turnover of the region.

The prospects of developing the social and economic sphere of the region, international tourism, including «green» tourism, deserve a special attention. Monuments of the Podillia region such as the memorial estate of the prominent surgeon M. I. Pyrohov and the mausoleum with his embalmed body; a unique rocky monastery in L'adava and other unique monuments are of primary importance.

Conclusions

Analysis into the basic results of economic development of Vinnytsia region in 2003 shows some positive dynamics of its economic growth.

There are real opportunities to increase industrial production in 2004. Opportunities for domestic investments growth are increasing in the region as a result of the partially solved ethical and social problem. With foreign investments

being somewhat suspended or significantly reduced, the sources of investments in the very near future are domestic financial resources, including savings of the population due to restoring of their confidence and increase of the living standards.

Small business is developing in the Vinnytsia region, with new enterprises which deal in intellectual property (know-how, certification of products and goods, franchising, etc.) being established. This has a great potential for development in the very near future.

The spread of small business suggests not only the economic development of the society, but also its social maturity. It implies the formation of the positive situation of doing business on the principles of common social values.

The main trading partners of Vinnytsia region as to volumes of exports are the Russian Federation, Germany, the United States, Republic of Belarus' and Moldova.

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