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NEW ECONOMY AND MODELS FOR ITS DEVELOPMENT IN UKRAINE

The notion «a new economy» is comparatively new phenomenon to the field of economics, and its advocates still have not managed to find proper meaning for it. Nevertheless, in the western countries the problems of a new economy is accepted not only as one more regular scientific concept, but also as the newest trend for macro- and microeconomic policy elaboration. The new economic policy phenomenon in Russia is being efficiently studied now, particularly from the point of the country's readiness to build it. Ukraine is keeping absolute silence in this respect. Neither representatives of the scientific domain, nor politicians have yet realised that a genuine (not

one from the Russian fairy tale) «spotted hen» laying golden eggs in every place where the favorable conditions are created has been born.

A new economy however shows itself in a few spheres. Last year, for example, everybody was surprised that Yahoo – a kind of research internet machine with about 1000 employees was charged at the exchange higher than such companies as Boeing and Daimler-Chrysler with employment 200 and 500 times respectively larger. Hence, only one conclusion here could be made: i.e. Dot.coms of a new economy provides a way to wealth much faster than widely advertised concepts of industrial world leaders.

1. Essential characteristics of a new economy

Economists could hardly more or less get used to (but not sufficiently reveal the essence of) the notion «postindustrial community» when practically a alternative concept «new economy» came into being. As a matter of fact the «postindustrial society» as a scientific concept was used to define a current stage of economic development for the western countries greatly due to very popular works of American sociologist Daniel Bell. This term was always overshadowed by the question as by the «sword of Damocles» - if it forecasts the end of industry then what will it be substituted by? And if in modern world there is something able to substitute industry what is it called then? Finally, if the industry replacement is known then why a new society should not be called after the name of this substitute?

At present, it becomes obvious that the world community is entering a new era the prevailing factor of which is globalization. If during the first years after the Second World War only the military technology could be characterized as one affected by globalization (for example, the consequences of nuclear and hydrogenous weapon), while now economies are losing their national features and former originality being not involved in the world processes. Multinational companies can have much more effect on political and social processes than presidents and governments do.

The notion «a new economy» entails the Internet grossly. It was introduced in the middle of 90-s when the first Internet companies (Yahoo, AOL, Amazon.com) appeared on the

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market. A new economy symbolized enormous increase of stock exchange indicators. The Internet companies' stocks¹ at the initial investment augmented a hundred and even a thousand times a day. Besides, this phenomenon promoted the new economy to be the associated with business via the Internet.

But it is not so. Though the Internet has priority in the formation of a new economy, the latter does not imply only its use. *The essential feature of the new economy is elaboration and application of new knowledge.* Therefore, the definitions of the new economy such as «knowledge economy», «economy based on knowledge» or «weightless economy» could be accepted rather positively. Alongside with this, one should realize that these definitions diminish to some extent the essence of the new economy because they put production of new knowledge outside the sphere of economic processes. And this theoretic vagueness results in underestimation the fact that knowledge production shifts from the sphere of services into the sphere of the direct production.

At least, it is said that knowledge at present or in the near future could lead to the increase of economic efficiency². In other words, it is very simple though not clear. The following definition can be the example of similar theoretical vagueness, «In fact the new economy is not only business through the Internet. It is entire old business but in new conditions created by information and other high technologies»³.

Such interpretations have only one but essential thing that is not clear – why the new economy was not and could not be mentioned earlier. After all, revolutionary technical changes are constantly taking place. The research can go two hundred years back and recall how the limited and high cost muscle energy of human beings and animals was replaced with the energy of natural minerals, at first with coal, and later with oil and gas. According to some estimations the use of coal in a steam-engine that converted the energy of coal into mechanical is a crucial engine of the industrial revolution⁴.

If the role of computer in modern economy is compared with other major discoveries and inventions of late 19th and early 20th centuries -

like electricity, engine of internal combustion, polymer chemistry, and entertainment industry - it appears to be not greater than the latter ones. Each of the mentioned above inventions also had a revolutionary impact on production and organization of everyday life. These very inventions made possible coming into being all those portable machines and tools, washing machines, refrigerators, conditioners, cars, planes, polymers, plastics, numerous medicine, telephone, radio, cinema, television, sound recording, mass newspapers and magazines. As Robert Gordon argues, computers have limited effect on the economy in the fundamental sense, as they can not improve multifactor productivity. Thus, it does not allow us to consider their spread as a new industrial revolution.⁵

The above said should not diminish the epochal role of computers in the economy. Firstly, their appearance and development led to the formation of new branches of economy, i.e. the economy of computer production, Internet economy, electronic commerce, and electronic banking. These branches have essential impact on⁶ traditional branches of economy and greatly change their image. Secondly, computers became the technical basis for the development of the new economy as the economy of knowledge.

The creation of the new economy is the result of the new knowledge development. Its accumulation accelerated especially in the past decade. Estimates show that knowledge is doubled each passing decade. Knowledge has always been the criterion for the production development. However, by the beginning of the 21st century the mankind has accumulated so much knowledge that it resulted in the qualitative new state, i.e. knowledge itself became the independent production factor like land, capital, and work force. This makes the new economy qualitatively different in comparison to the previous development of the humanity, as in the past; apart from the type of socio-economic formation the economy functioned on the basis of the same group of factors⁷.

In the new economy, knowledge has become not only the independent factor of production but also it *is the leading factor*. It is connected with the fact that it is knowledge in

¹ The most famous book: Bell D. The Coming of Post-Industrial Society. A Venture in Social Forecasting. N.Y., 1973.

² See, for example: O.N. Antipina. A Mystery of «the new knowledge economy» (Solow paradox) Herald of Moscow University. Series 6.Economics 2000 №6 S.3; Klodt H. Die Neue Okonomie. Aufbruch und Umbruch. B Die Weltwirtschaft. 2001. Heft 1.S.78.

³ Коммерсантъ, 14.02.01.

⁴ Kelly K. New Rules for the New Economy. New York, 1998, p.55.

⁵ Gordon R.J. Monetary Policy in the Age of Information Technology: Computers and Solow Paradox.

⁶ <http://faculty-web.at.new.edu/economics/gordon>. P. 44.

⁷ This phenomenon is noticed by many researchers. For example, A. Sidorov writes, «In the past economic studies three component parts of the production were considered, i.e. natural resources, labor, and capital. They all are known to substitute each other» (Sidorov A. Economic Aspects of Information Technologies. – Problems of the Management Theory and Practice. – 2001. №1. – С.87.). Shapiro, C and Varian, H.R. Information Rules. A Strategic Guide to the Network Economy. -Boston, Mass, 1999. P. 2

the form of information as the systemized data which is changing the image of modern world at ever growing rate. The economic science considered that in agrarian society land was comparatively in shortage while work force was a sufficient factor. Then land loses its value and in the industrial society the economic wealth transfers from big landowners to the kings of factory smokestacks.

In the new economy the wealth is defined as possessing human capital, though the capital invested into material resources does not disappear. Industrial societies could not completely deny the land factor; the new economy also needs material resources (so called material capital), though the value of these resources decreases. It shows up in the fact that assets of a certain company are calculated by «real» values, like buildings, machines, technique, etc. The company's assets in ever growing degree are formed with «non-material» resources, i.e. ideas, personnel qualification, strategic combination of key processes for information processing. Specifically, it refers to big companies working in the information market – they regularly win in capitalization. Hence, the cost of Yahoo! company increased for the past two years from \$400mln. to \$5bln. Essentially, this is a market evaluation of the volume of knowledge accumulated by the company that is digital, but it becomes the basis of enormous profit.

The recognition of the new economic era raises a question about economic zones ruling this era. Theoreticians like to quote Shapiro and Varian, «Technology changes. Economic laws do not». It seems to be a little simplified approach to the solution of the issue on the laws of the new economy if not avoiding to answer it. If a natural scientist is asked whether physics or biological laws change during transition from atmospheric into non-atmospheric space his answer would be definitely positive. Strange as it is, but the economists still admit that life in the new economy could be under the «old» laws.

Of course, the «old» economic laws will not disappear. But one can forecast the change in their effect and display.

Alongside with this, the new economic laws that science can forecast or discover in the process of the new functioning economy will emerge (most likely, they are already being applied). At present, the issue of the paradoxes of labor productivity, («Solow paradox») and Kondratyev cycles that were not clearly explained on the basis of existing laws, are already being lively discussed. Some

economists admit that the rules as, for example, of monetary and antimonopoly policy governing in the era of steel and cars, nowadays, in the epoch of predominance of computers and networks, can not be applied. From the viewpoint of others, the economic cycle in fact is not dismissed; if the economy grows too fast the inflation will increase; the stock price depends on the profit as before; and the governments as before should be on the alert to prevent the abuses of the monopolies⁸.

The achievements of the new economy can not be considered to have been explained convincingly enough. Hence, in the field of service the major sphere of information distribution and use, the share of which in the USA GDP increased since the 60-s from 50 to 70%, 63% out of the total services constitute the intellectual ones. Over 50% of GDP in the OECD countries (Organization for Economic Co-operation and Development) comes from such knowledge-intensive fields as education and communications. Almost in all countries with high income rates the share of high-tech branches within the total amount of relative net products and exports increases (computers and electronics production, aerospace industry, etc.). For example, from 1970 to 1994, the share of high-tech goods within net production increased from 18,2 to 24,2% in the USA, from 16,4 to 22,2 in Japan, from 16,6 to 22,2% in Great Britain. As for the share of these branches' products in export, the greatest index is observed in Ireland for the mentioned period where it grew from 11,7 to 43,6%, while in the USA it increased from 25,9 to 37,3, and in Japan from 20,2 to 36,7%⁹.

Enormous development is observed mainly in the technical sphere. The first programming computer with 20 word memory capacity was designed in 1946. In 1960's, the revolution in computer technology began. Originally it was characterized by the spread of «mainframe» computers, then by microprocessor invention in 1971. Gordon Moor, one of the Intel founders in 1965, predicted the technical progress rates in the field of computer technology, and it was completely proved by the practice that followed. According to the law of Moor, processing capacity of a flint chip doubles each 18 months. As for the scientists' estimates the law of Moor will be in effect for at least ten years more. In 2010 the processing capacity of a computer will exceed 19 million times that of the 1975 computer, and its real price will be lower.

The tremendous indices of economic growth could be explained very simply, i.e. by high efficacy of new technology and its demand. But it

⁸ See the articles on «the new economy» reprinted from the journal «The Economist». Expert, 23.10.00.

⁹ Knowledge in the development service. Report on world development. 1998/1999. – M., 1999. p. 34.

would be right to suppose that the new laws unknown to the old economy 'intervened' with the economic development. They are to be discovered and explored yet. The new laws would come into effect in the way it happened many times before as the result of more or less destructive crises of the world economy. Thus, *the new economy is the production and*

implementation of new knowledge, transforming it into an independent production factor that plays the leading role in the system of production factors, is the development under the «old» laws that function in a new way under new conditions, as well as under the new laws that stipulate acceleration of the development.

2. The new economy as the unique supra-national world economy

Among the tendencies of the new economy, the most vital one is the economy's integration character. It unifies practically everything and everybody: people, enterprises, markets, and countries. Nobody and nothing can exist autonomously. The time of autarchy economies and the 'Robinsons' is passing away forever. Gradually, the world economic order is being formed and the state boundaries will play only political role. In order to ground and possibly to develop this idea we will focus at some essential peculiarities of modern development.

The new economy leads, first of all, to *elimination of geographic and national boundaries in economic space*. The world community is a real or prospective client of a company while any company of the world economy is a real or potential competitor. These are the premises forming the strategy of management and marketing, i.e. the client is to be won within the whole world market space and the competition strategy should be orientated at the world market space. It leads to expanding unprecedented historical possibilities for achieving success on the one hand, and to increasing risks on the other. The vivid example is Amazon.com, that during the past three years managed to sell books directly from its office in Seattle to almost two million people from 160 countries. The list of successful American telecommunication companies can be continued, but all of them bitterly compete with providers services from the European Union countries and Israel.

Leveling of geographic and national factor at present shows itself in expanding the area affected by individuals and non-governmental organizations. A large number of virtual coalitions are created now, where the alike-minded people unite with the aim to render mutual assistance for exchanging information, developing and implementing their strategies. These unions of scattered individuals sharing common goals sometimes become powerful coalitions able to push some issues all over the

world. At present, the number of non-governmental organizations is about 30000. They emerged greatly due to the Internet, and their number grows rapidly.

For example, 600 absolutely different non-governmental organizations from 70 countries in 1998 coordinated their efforts via Internet and created world coalition forced the OECD to cancel the plans to regulate international investment. Analysis of these actions gives ground for the conclusion that Internet is forming *the qualitatively new global civic community*. Especially efficient means for the development of these trends is the use of digital space for international community pushing their governments with the aim of making proper political decisions.

While estimating how the new economy and the state affect each other, the viewpoint dominates that «Internet has substituted neither national government in its central position in world politics, nor classical policy of power. But it has extended the existing limits of national activity and is promoting the creation of *global civic community*. Both in perspective will affect the positions and conduct of the national state. Nonetheless, it will not disappear, it will only change. Alongside with the system of territorial states the network of relations is formed where the governments, international and non-governmental organizations, economic subjects and separate individuals exist, argue and cooperate».

This viewpoint could be taken only with certain reservations. It seems that the necessity in national state will be only preserved in the sphere of cultural and historic interests, and judicial relations. The adjusting role of the government will be of no demand for the economy, since it will gradually be performed by transnational companies and big economic subjects acting on microeconomic level. Moreover, the social functions will acquire global character. The most gifted will be enrolled in the most competitive universities and schools, while

the rest of the youth will have to be content with average higher educational establishments. The latter themselves should take care to improve their work quality and in order to realize it they should use the existing possibilities to increase their economic and personal potential.

The outline of supra-national government is seen in the USA, the country that de facto became the world internet-state. It can be explained by its historic character. In the 50-s the American government played the decisive role in Internet creation. It had to authorize itself with the duties to regulate the issues of technological infrastructure and capability of Internet, to assign domain names, settle the legal disputes between the owners of real and virtual world, etc. These functions could gradually transfer to supra-national bodies since the role of the American government as a unique Internet power is becoming for other countries less acceptable. However, this power cannot be decentralized and transferred to national organs because it contradicts the international essence of Internet¹⁰.

It is obvious, that globalization made the task of comprehensive *liberalization of national economies* the most urgent. As «Business Week» states, the world community witnesses the ever increasing signs of slackening of rigid control over economy and some industries. The surge of merging in Europe testifies to the fact that the old idea of preserving national monopolies is dead. Even in Japan where high tariffs for telecommunication services hampered the electronic commerce development, «Nippon Telegraph and Telephone Corporation» Company introduced the flat tariff amounting \$75 per month for the Internet access for everyone who is an active user of its services. But this charge much exceeds that in the USA where one can use Internet for only \$20 per month or even free¹¹.

The necessity for economic global liberalization is shown by experience of Europe. «There is no doubt that the new economy is emerging in Eurozone»¹² considers Thomas Meyer, the chief economist of investment firm «Goldman, Saks» in Frankfurt-on-Main. Other economists think that European market is too fragmented, its labor markets are toughly adjusted and the laws acting in the continents are of too limited character to assure promotion for rapid economic growth without inflations. Therefore, we can not help agreeing with John D. Sullivan, Executive Director of the Center for International Private Entrepreneurship, who admits, «Each country trying to use the forces of

globalization for the sake of its own people faces the necessity to take a strategic option. Nations can try to use the variety of protectionist means mitigating the effects of globalization on existing national sectors including the private one, the firms of state form of property, unions and other components of the society.

As the alternative option they can try to open their economies for possible greater participation in international system. The final option will lead to more severe competition among international companies. Meanwhile, it will also cause the increased inflow of overseas investments, the activated process of adopting technologies, and in a certain moment it will accelerate the economic growth. Of course, the option between these two strategies at present is becoming a constituent element for political discussions in every country».

Elimination of distances in the new economy is not a unique fundamental innovation. The traditional role of time is also changing. Time indicates economic value of knowledge. The amount of knowledge has the most considerable effect at the primary stage of production use, and while circulating its value falls. Temporary essence of knowledge lies in the basis of exchange speculations, investment attractiveness of scientific research, profits from mass media commercials, and so on. The greatest value lies in development and preparation of mass commodity production. In the process of production the knowledge value is gradually transformed into the product value. The faster this process is actualized the greater the investment return into knowledge is. Any delay of the knowledge production use leads to its obsolescence and economic invalidity because the new knowledge is emerging that has great perspectives for efficient production «life».

Many Ukrainian managers and top authorities, especially those who design economic policy, have not yet realized the essential role of knowledge in production. They do not see that production in the new economic policy is low-priced. The major efforts spent are the generation of new ideas, search and processing of information that in great respect defines the value of goods to customer. In this connection one can take into consideration the fact that knowledge is beginning to have a decisive impact not only on production but also on consumption. It requires a comprehensive study of the market, search of methods to assure the customer that he/she should choose this producer among others.

¹⁰ ib. p.45⁹ Knowledge in the development service. Report on world development. 1998/1999. – M., 1999. p. 34.

¹¹ Business week, 31.01.2000.

¹² Business week, 31.01.2000.

Knowledge as a production factor leads to the emergence of new forms that are *in continuous interaction in real time of the market subjects*. This tendency is called collapse. Consequently, information gathering, study and adaptation to changing environment is going on exceptionally fast. The companies that in the collapse have managed to adapt to a new cooperation culture with clients and business partners are becoming and remain leaders. They elaborate image of continuous changes and aim at regular reconstruction of their processes and modernization of their products. Thus, Dell Computer Company made a revolution in the sphere of personal computer sales supplying them directly to clients. The company began to apply super rapid production cycle, which shocked the competitors. In the end, all producers were to make detailed analyses of their clients' orders to keep pace with the market tendencies and meet the clients' preferences.

The new role of space and time made it necessary in technological aspect to use the Internet as the entrepreneurial tool for restructuring of relations among three key business players – the supplier, the company itself, and the consumer. A single electronic chain for supply has sprung out and now is being developed, where the client can manage the store house of his supplier forming both the order for production and the configuration of the product. Actually, on this stage the new interaction of the Internet technologies and economic units begins¹³.

In the new economy Internet has become a kind of global trade platform requiring no intermediate. That is why Internet is frequently called «the intermediate killer». The model build-to-order developed by the above mentioned company Dell Computer is widely spread which allows to completely abandon commodity and material costs. The most essential in these conditions are *emergence and development of online trade models: B2B (business-to-business, i.e. interactions of companies); B2C (business-to-customer – interaction of company with final customer)*. As to the forecast of «The Gartner Group» consulting company, the global trade B2B in 2003 will reach the amount of \$4 trillion in comparison to less than \$400mln at the end of the century¹⁴.

Electronic trade B2B reduces purchase costs due to the possibility for a supplier to search with the lowest cost. Alongside this, the online procedure allows to simplify order placement, and also diminish the error probabilities, while making orders and drawing

up the invoices are brought to minimum. The economists of Cisco firm calculated that one quarter of all orders had to be redrawn up because of mistakes made over the telephone or fax. Transition to online system for ordering resulted in 2% reduction of total amount of errors saving \$500mln for Cisco. As British Telecoms announces, online purchases shrink the costs of operation processing by 90%, and decreases the actual costs of purchased goods and services by 11%¹⁵.

The new economy originally *provides the conditions for practical realization of the model of perfect competition*, since it is forming abundant information, unlimited number of buyers and sellers, renders the operation costs to null and eliminates all barriers for new players in the market. A diversity of trade outlets meets the necessity of branch or market players. The catalogues and auctions serve to facilitate their interactions, and these allow to connect a large number of buyers and sellers throughout the world and timely liquidate excess goods. Standardized goods of one branch are traded on electronic exchanges. And Internet ensures translucency that is figuratively characterized by UBS Warburg economists as «stripped economy». It is explained, in particular, by the fact that Internet users have the possibility to search for goods with the lowest price because they get information from a large number of suppliers, they can also reduce operation costs and eliminate the barriers for new market players.

At present it becomes obvious, that all the branches will have B2B exchanges to ensure more efficient market for commodity exchange between buyers and sellers. By now these are founded by companies producing cars and steel, and also by construction and aerospace companies. GM, Ford, Daimler-Chrysler and Renault-Nissan are planning to move to common electronic exchange with circulation of \$200bln and 60 thousand suppliers. It is supposed that online work will result in reducing car production by 14%.

Benefits gained in conditions of the new economy are distributed rather unequally on the world scale¹. They are mainly concentrated in industrial countries, primarily in the USA. Americans are ahead not only due to technical leadership but also thanks to a more successive realization of free trade principles resulted in stable financial and monetary policies. In the USA they tend to explain that the biggest European countries and Japan lagging behind due to exhausted «override» economic systems

¹³ Sullivan D.D. Success in Global Economy. Economic Reforms Today. 34, 2000. p.22.

¹⁴ Expert, 23.10.00.

¹⁵ *ibid.*

available, lacking innovative spirit and entrepreneurial bent. But have the Americans gained world leadership forever?

Let us refer to history. In the new economy, the cost of error risks in the sphere of economic policy is skyrocketing. It always used to be like this in the history of mankind during the stages of transition. Take, for example, China. 600 years ago it was technologically the most developed country in the world possessing many of the inventions that gave an impetus to industrial revolution in Great Britain. Many centuries ahead of the West, movable printed letters, blast furnace and spinning machine run by water were invented in China. Nevertheless, because of rigid control introduced by the Chinese authorities over new technologies, technological progress stopped there.

The role of economic leading countries in the new economy cannot be explained by past analogies. The models of economic growth developed in the 50-s are grounded on two principal factors, i.e. capital and labor. Technological changes were considered as exogenous phenomena – something like rain falling from the skies. In «the new theory of growth» developed by Paul Rommer and other scientists in the 80-s, technological changes for the first time were regarded as the basis for growth. For «the new theory of growth» knowledge creation is the endogenous process meeting the market stimuli including increasing possibilities either to get profits or acquire better education. It means that rate of technological changes at present cannot be taken for rain falling from the skies, it depends upon the players on micro- and macro-levels.

The turn of knowledge into endogenous process for the economic growth provides a new vision to estimate its effects. It is good to be reminded of an old parable saying that if someone having an apple shares it with somebody else then each of them will possess half of the apple. But if someone having an idea shares it, then each party will have the idea. Consequently, in the economy of knowledge, any growth of national economy is achieved by world progress of science and technology. Its potential is rather high – about 90% out of ever existing number of scientists have been living in our days. The new role of knowledge requires *creation of such world economic order that could ensure optimal growth of the world economy, equalize levels of development in various countries and regions, and provide a just system for distribution and redistribution of the world product.*

The new world economic order has already being developed to some extent. It is represented by such organs as UNO, World Bank of Reconstruction and Development, World Monetary Fund, GATT/WTO European Parliament, etc. *But still it is lacking well designed and logically completed structure. Also it has no system of hierarch subordination of national, regional and national-wide organs. Simultaneously the world economic and legislation mechanisms of the new economy should be elaborated.*

Want of world economic order causes antistimuli for science and education development. Researchers of the new economy problems admit that the new economy needs «creative collapse» (Joseph Shumpetter), i.e. extreme continuous replacement of new technologies with the newest ones. The intensification of production process and knowledge application need outstanding and genius people, since the genius ideas are the basis of new technologies and business models. But births of talents is not the priority of only one nation. According to the laws of nature each nation is to give its geni to the world.

At present, the system of buying famous personalities by countries and leading firms is being formed. While a genius is born and educated in one country, his ideas and produced surplus product are owned by some other country. As a result, the world system is formed in the conditions where there is no sense for the developing countries to finance science and education as a priority sphere. As for some estimates 6,5 mln¹⁶ of Ukrainian citizens are now working abroad, and this number is expected to increase. As the International Labor Bureau informs want of highly qualified personnel in Europe in the sphere of information and communicative technologies in 2002 could reach 1,6 mln.¹ There is no doubt that this deficit will be partially satisfied in Western countries by draining specialists from the countries in transition. In any case, the country defrays expenses for personnel training but is not able to reimburse them. As V. Andriychuk fairly admits «contrary to the postindustrial development trends the intellectual and innovative diffusion is occurring, and to enhance, even in perspective, the positions of the countries in transition is becoming more and more problematic»¹⁷.

One of the pressing tasks while developing the mechanisms of the new economy is formation of the international system for emission and use of digital money. This notion defines particular currency or goods valued in units of account that can be in the form of

¹⁶ Euro Bulletin. January, 2001. p. 4.

¹⁷ Andriychuk V. On the Halfway to WTO –Politics and Time #6. p.17.

electronic records in electronic devices. The information on which can be transferred from one device to another, thus providing opportunities to the users to actualize settlements on the basis of economic agreements. Due to this, not only does the demand for quantity of money issued by central banks decrease but the right on surplus i.e. seigniorage is usurped by organizers of the system.

Wider implementation of digital money use, specifically its global character, makes problems of trans border laundering of «dirty» money and legalization of international payments more acute. According to WMF statements, annually from \$500bln. to \$ 1trillion of «dirty» money is laundered throughout the world, and this is possible mainly due to wide implementation of electronic banking settlements and contradictions in national legislations. These are usually outdated and are not in pace with the newest technologies. We can also add faster traditional transfer of funds (in the regime of «real time»), miniaturization (banking cards) or complete absence of settlement means (coded internet – transfers). For the past years the settlement systems are developed when the bearer instruments are used, and the emitter should have the reserves in the form of amount of balance on banking account or securities to guarantee emission.

The world community can not be blamed for not taking measures to fight laundering of «dirty money». In 1995 the Task Force was organized for providing security of digital money. Ministers of Finances of the European Union countries took the decision on imposing sanctions from June 2001, against countries and territories that favor or insufficiently counteract the legalization of finances gained in a criminal way. Though

similar measures somehow restrain the crime development in financial and banking sphere, nevertheless they are only half measures. Analysis of efficiency of these measures proves the necessity for an international mechanism that provides for the functioning of the new economy.

The new economy researchers often quote the idea of German sociologist Helmut Shelski put forward in the 50s of the 20-th century, that the use of electronic calculators will result in arising the problem of totalitarian state. This idea was grounded on the fact that administrative machine demands absolute submission in the condition of comprehensive and forecast planning. Now the other statements seem more realistic. As the member of Henzeins Scientific Collegium (Board) Niko Shtehr says, «In spite of all forecast, we most likely witness the end of reign of such great institutions as the state, church and army»¹⁸.

Withering away of the national state in its modern definition, strange as it may seem at the first glance, is the most beneficial for the developing countries. Within the new economy their peoples get direct access to knowledge and possibilities to realize themselves no matter how successful the policy developed and pursued by their governments would be. «Increasing differences between the poor and the rich in this world», K. Dixit says, «are reflected in the gap between the competent and the incompetent. If we wish to transform the information into knowledge and provide to the developing countries the opportunity to achieve prosperity in the shortest way we should patch this gap»¹⁹. That is why the developing countries should be more interested in the new economic order than the industrious countries, and consequently, show more initiative to achieve it.

3. Ukraine on its way to new economy

In the recent years the leaders of various countries wonder if their nations are ready to live in the new economy. They view the new economy not only as a model for running business, but also as a strategically integrated part of the future economy. For example, Prime-Minister of Great Britain Tony Blair, sees the aim of his government in creating the most favorable conditions in the world for the development of electronic trade in 2002. Hence, if in 1999 the electronic trade volume made around 3bln pounds, in 2002 it should multiply by 10 times (about 4% of GDP).

Unfortunately, the problems of new economy were not properly pondered in Ukraine. National economic policy has been discussed and focused on trends which all the governments proudly call 'the policy of reforms'. The political forces compete for the right to be called «reformers». But all attempts to put forward the reform concept mainly come to fixing the tax rate, adopting some codes, introducing partial changes in the existing laws which, despite certain importance of these measures, can not become the general strategy of development. It is the highest time for Ukraine to

¹⁸ Shter N. World of Knowledge – Deutschland. 2001. #1. p. 42.

¹⁹ Dixit K. Will the Information Transform into Knowledge? –Deutschland. 2001.#1. p.45.

start its global political orientation in economic and social areas. With this aim, the open community should be formed with mechanisms providing necessary for the new economy flexibility to current changes and challenges that the community faces. It is impossible to expect prosperity if a single scandal even how big it is (for example, tape scandal) is enough to block the Internet development, to limit its use in global space, etc.

In Ukraine they continue to complain about shortages in raw material resources. Sometimes desperate efforts are made to increase production of oil, gas, gold, etc., which cannot result in overcoming the crisis; and moreover, it will not bring the country back to the industrial countries. Besides, it is not taken into account that at present the *information has become a strategic raw material*. How important it is to timely re-orient the new strategic raw material can be seen on the example of bitter experience of the 70s, when the economic failures in western countries for decades were caused by one single economic phenomenon, i.e. five time rise of price for oil. Now oil ceased to be the most important raw material. Though the digital sector of western economies is not very big, it has already constituted a considerable economic growth ratio. In the USA, for example, 8% of GDP is still produced in the sphere of digital economy, but it made 35% of all national economic growth for the last period. And the price fall for computers causes decrease of inflation at least one percent a year.

While setting a task to transit to the economy where information dominates – and this is the crucial task to be set now – one should consider the fact that education and knowledge is the key to achieve success in society. Traditionally, high level of education, as well as scientific and technological progress development, were characteristic for Ukraine while the attained achievements were poorly used. But during the last 10–15 years the situation worsened in this area because of the best personnel outflow abroad and to business, decrease in scientific research and education budgeting, the insufficient use of young specialists and scientific developments for practical activities. And it turns out that the areas of science and education work as if for their own sake.

We cannot say that economic dependence on knowledge is a new phenomenon. But at present, the competition for the raw materials and resources in the 21st century, i.e. creativity and knowledge, can be won only by those who will create respective frame conditions for their support and development. The limits of this research do not allow to focus on this particular

problem. Nevertheless, some aspects should be mentioned. We need, in an accelerated way, to take the forms and principles of building the educational system of western type with the aim to create advanced industry for development of personnel training and retraining. The budgeting should be sufficient for training teaching personnel in western universities. That will provide natural integration into the system of knowledge production and reproduction on the competitive basis.

While elaborating the new policy in the domain of science and education, it should be noted that *the new economy requires adapting to English-American business culture*. For Ukraine, it means that not only the English language should be learnt intensively, but also a considerable part of subjects in kindergartens, schools and universities should be instructed in English. Also, an essential part of research and development work should be done in English, and the number of scientific papers published in English should be enlarged. Besides, finance and banking, accounting and statistic operations should be partially handled in English. What is more, this should be done as soon as possible and without reliving our awkward experience of endless adapting of our legislation to the European Union legislation. This negative experience has been accumulated since Ukraine declared its strategic aim for the EU integration.

Entrance to the new information community presumes that *everybody should have access to the Internet*. It requires a special state program like it has been arranged in the countries of the European Union. In spite of financial difficulties, all educational establishments within one or two years should be equipped with computers and have access to the Internet. All types of services available through the Internet should be prepared for use through the network. Benefits should be introduced for school and university students to purchase computers, and computer business should be to the maximum exempt from the tax burden. Now the vital necessity is to develop the package of laws for electronic commerce support that will remove all obstacles for the wide use of Internet at home and in office.

International competition in the area of education becomes severe in the new economy. Real success can be achieved by *attracting foreign undergraduate students*. In this respect the USA is ahead of others. Out of 2mln. foreign students studying not in their home countries, 30% are in the USA. For the last years, Ukraine has been losing its foreign students. There are many reasons to explain this situation. To figure them out and drastically change the situation, first of all the approach of attracting foreign students should be fundamentally changed. The

new policy could be actualized with professional marketing that has been used by Americans for many years in their struggle for students. On 1 January, 2001, German Service of Academic Exchanges (DAAD) and the Conference of German University Rectors with the financial support of Federal Ministry of Education and Research founded the marketing consortium. Germany sets the task to increase the share of foreign students should be 50% by the end of 2003, and the number of foreign postgraduate students should be twice as large.

The task of attracting foreign students into Ukrainian universities is a comprehensive one. Originally it should be solved on the basis of bridging the quality gap between training specialists in universities of Ukraine and universities of leading countries, and also gaining the international recognition of Ukrainian diplomas. Hereby it is necessary, on the one hand, to develop achievements of national higher educational establishments, and on the other hand, to develop and implement the system of advanced pedagogic accomplishments of foreign universities (dual professional education; software skills; ability to work in teams; independence; ability to solve problems; endurance; mobility; cultural and intercultural competence; multilevel courses; multimedia education; etc.). Simultaneously methods for penetration into international education markets should be elaborated.

The new economic policy presumes integration of Ukraine into the world processes of national administration decentralization. Globalization led to decentralization practically in all formerly centralized countries. In Europe, the vivid example of these transformations are France and Spain. Creation of «Europe of regions» is the tendency throughout Europe. Particularly, it is specific to the countries of the European Union where due to Schengen Agreement the principle of border security gives place to the principle of efficacy for international co-operation in all spheres of social life. It became obvious that co-operation is the most efficient between those regions that have common cultural, economic, geographic features and are not divided by state borders.

There is no doubt that Ukraine badly needs to deepen decentralization. During national referendum of 16 April, 2000, the majority voted for election of the second chamber of the Parliament where regional and local interests would be represented on the central level. Hence, the «Party of regions» has been registered and it becomes more and more popular. But regional policy is being formed very

slowly and, what is essential, «regionalers» have no clear concept of innovations.

From the point of view of western consultants the optimal form of national structure in Ukraine is the unitary decentralized state. This particular form supposes to have the unitary system completed with some regionalism, i.e. ability to draw laws by regions and oblasts, and their administrative autonomy²⁰. Though any movement forward is positive; nevertheless, Ukraine should not expect great effect from such option. As a beginner athlete significantly improves results, the Ukrainian reforms at the present stage should produce considerable results, the other way they should be considered as half measures.

In the opinion of western scientists the decentralized model is not good for Ukraine because it does not presume to reform the existing system of administrative and national structure with further creation of absolutely new territorial entities, such as lands and principalities. In this case «under condition of preserving the existing structure, the significance of some administrative and political centers would increase (for example, Donetsk) while the others that territorially belong to these regions would lose their importance (for example Luhansk in Donbass)»²¹. This thesis has a lot of alternatives. One of the questions could sound like this, «It is not so bad, is it?» And is the centralized system characterized by available continuous processes of nominating and removing leaders?

Actually (when we refer to Donetsk) there is «a Donetsk clan» in Ukraine that provides a unique phenomenon even within the «clan» system of Ukrainian politics. The Donetskites concentrated enormous finance and industrial resources in their ownership that allow them to compete with any financial and political group reigning in Kyiv Olympus. Suffice is it to say, that «Donbass Industrial Union» Company by final 1999 returns took the second place in Ukrainian national rating «TOP-100» as for gross national income totaling 3.8bln hryvnias. The group owns large-scale metallurgic, coke, chemistry, and mining concentration enterprises (or effects them), monopolistically supplies all the industrial enterprises in Donetsk region with gas, and controls majority of Ukrainian mines and Khartsyzsk pipe plant.

At present the Donetskites accumulated sufficient power and resources to «conquer Kyiv», and they can realize it during the very next election. As the reviewer of Russian «Independent Gazette» quotes, «by 2001 it turned out that insignificant «Donetsk group»

²⁰ Ukrainian –European Consultative Center (UEPLAC). Regional Policy: European Experience and Ukrainian Perspectives- Center Information Bulletin. Issue 17, July 2001.

²¹ *ibid.*

became a powerful financial and political center that found it too cramped to work within one region, and it assumed to have the right to expand its political influence as far as to cover the whole nation... Recently they began to talk in Kyiv that the successive president is reared in Donetsk²⁴.

Decentralization, Ukrainian style, should ensure the essential growth of regional competition, self-financing and leveling of regional development. The regions could rely on getting great powers as for self-regulation and foreign policy. The competencies, authoritative responsibilities, budget and cross-budget financing urgently need redistribution. In economic policy, important role should be given to regions in regards of creating euro-regions with neighboring countries.

Ukraine should not heed to designing «locks» to its frontiers, especially to those with its western neighbors – the neighbors will take care themselves if they are going to erect a new «Berlin Wall». *The policy of maximum, almost complete openness should become the Ukrainian principle for integration into the world economy.*

The first step in implementation of the policy of openness can be considered Ukraine's entrance into the World Trade Organization (WTO), the global system of world trade, and respectively, its intention to strictly follow the principles of undiscriminated trade, predictable and free access to markets, fair competition, economic development, and reformation. It means that within the structures of Ukrainian state power, the endless discussion about advantages and disadvantages of liberalizing foreign relations should be definitely ceased. Of course, there could be some weak points and in some cases some benefits, but the decisions are to be taken after assessment of final results. Incidentally, as a criterion, not a momentary effect of exported products increase (it is important but, nevertheless, is only a partial index of efficiency) should be taken, as it is frequently done, but the effects oriented at vast perspective. These effects could include achieving production competitiveness, entering the markets of western countries, grasping the leadership in scientific and technical areas, attracting foreign direct investments, etc.

Unfortunately, at present, instead of making decisive steps to enter the WTO, the efforts are focused at «pushing» abroad the production that does not meet competition. With this purpose, some products are declared to be under the policy of so called «liberalization of export», i.e. exemption of value-added tax and implementation of rigid methods of monetary and fiscal policy. At the same time, «defensive barriers» from import are created by increasing tariffs, by introducing specific and combine duties, excises and value-added taxes. What do we have as a result? Endless and unsuccessful antidumping lawsuits, volunteer limits on export (rolled metal to the USA and Canada, pipes to Russia), deepening of general and structural crisis while experiencing small, most likely temporal growth in export. Avoidance to solve the problem of entering the WTO, cannot be justified. The situation in Ukraine while compared with that in postsocialist and developing countries (for example, Moldova or Bulgaria, Brazil or India) gives ground to admit that to enter the WTO, Ukraine mostly lacks political will. Political will is needed to get rid of excessive protectionism, to lower the custom duty rates, and to conform legislation with WTO requirements.

Entering the WTO should be considered as the means of the most efficient use of resources, acceleration of growth rates, rise of prosperity level, wide apply of technologies, and extension of economic opportunities.

At the second stage (better just after entering the WTO), the further liberalization of foreign economic activities should be pursued. It seems that the control efforts of state bodies should be concentrated on the use of technical norms, standards and safety rules for securing domestic market from imported low quality non-certified products. The importance of these measures can be clearly seen against the background of mouth-and-foot disease. At the same time, efficient methods should be implemented to stimulate the import of high technological goods and services. It should be calculated what is more profitable, either to imply various fiscal norms to special goods (for example, computers) or to promote their import and realization on the domestic market at the world lowest prices. It can't help noticing that liberalism can lead to competitiveness of all

²² In Ukraine great efforts are spent to support mining and metallurgy industries. The Supreme Council (Verkhovna Rada) adopted a protectionist law «On economic experiment conducted in mining and metallurgic enterprises of Ukraine». In 2000 returns from metallurgic production amounted to 36%, and direct export increased by 1,8 times. Practically, the economic growth is provided on account of this industrial sector since metallurgy produced 60% GDP and got 60% of foreign exchange receipts. But the question remains the answer to which is not in favor of this policy – should all other sectors be ignored, particularly those that have to ensure transition to the new economy for the sake of momentary achievements, even if these achievements are significant?

²³ As V.Andriychuk notes that maximum rate of tariff protection in some types of commodity is 60–70% (See: Andriychuk V. On the halfway to WTO. P.20).

²⁴ Ivzhenko T. «Donetsk clan» is surely conquering power.Svoboda. #32 (66), 21–28 August, 2001.

domestic products and possible development of branches of the new economy in the country.

The example of Brazil that has unilaterally liberalized its markets allows us to draw conclusions about feasibility of implemented reforms and on this principle to build our policy. Incidentally it is very important to be consistent avoid jumping back. It should be noted that the WTO is following the rules that were adopted to limit less global and interconnected trade environment. Andrhey Arendarski, the incumbent president of the Polish Chamber of Trade and Industry argues that at the moment «such new trends of development should be taken into consideration as creation of regional trade networks, increasing dynamic of international financial flows turnover, growing inclination to be incorporated into transnational companies, purchase foreign enterprises, foundation of powerful multinational corporations, development of electronic trade and other modern methods to run business»²⁵.

But the employment of new methods for trade liberalization is more likely possible not within the framework of the WTO. It will be more efficient in independent individual countries. This could be substantially explained by the fact that the WTO, as an organization, is built on the basis of consensus, and therefore, it is improbable to achieve consensus concerning introduction of revolutionary changes in the system of the world trade. Suffice it to say, that within the WTO the problems of providing financial services (including banking services and securing safety), as well as subsidizing agricultural development cannot be solved. Moreover, if the EU countries continue to pursue their agrarian policy, in 2009 these will swallow up 100% of the European Commission budget²⁶.

In the new economic model, Ukrainian style, it will be not possible to ignore the issues of creating basic elements. Without these elements no development could be attained. As academician of the National Academy of Sciences of Ukraine V. Heyets points out, «At the beginning of its formation capitalism was

developing after the model of initial accumulation. If one considers the formation and capital accumulation as a basis for functioning economy, then in our conditions capital is being formed absolutely differently, i.e. it is formed by characteristic methods of privatization»²⁷. Accepting this principal statement, we should pay attention to powerful source of initial accumulation which is yet not affected by the economic policy. It could be identified as *Ukrainian capital of western origin*. According to our estimates, annual net incomes of Ukrainians working abroad make about \$20 bln. They are shared and kept in individual and family cash-boxes, often saved abroad. The mechanism should be elaborated to attract this money into home country and accumulate it in businesses allocating it, first of all, for the development of branches of the new economy.

The key problem of forming the new economy in Ukraine is the problem of oligarchs. The new class of owners has emerged in the country and they managed to become those because they adapted to the conditions of transition economy. At present, they have learnt how to work according to the new economic laws. Their activity is concentrated on further redistribution of property by unmarketable methods, taking possession of budget finances, and holding the gained positions. Consequently, the perspective of the new economy in Ukraine could be related to two priority factors. Firstly, it can happen when the country would be administered by a competent economist (a kind of Ukrainian Lyudvigh Erkhard or Leshek Bal'tserovych), or by a politician not preoccupied with personal interests (like Vatslav Klaus), who initiates the program of Ukrainian miracle. Secondly, it can happen with the development «metastases» that lead to crisis in «occupied» by oligarchs branches; and with realization of the necessity for immediate efforts to concentrate on forming the basis for the new economic mechanism and «relocation» of accumulations aimed to execute the new structural policy.

²⁵ How to transform WTO into the playing field for everybody. – Economic reforms today. 2000 #34, p. 32.

²⁶ *ibid*, p. 33.

²⁷ Heyets V. 2001 returns will be much more moderate. – Economist. January 2001, #1, p. 17.