



Macroeconomics

Serhiy YURIY,
Yevhen SAVELYEV

**H-HOUR:
EXTREME ECONOMIC REFORMS
IN UKRAINE AT SURMOUNTING THE CRISIS**

Abstract

The main dominant thing of present economic crisis in Ukraine is mistakes of state and corporative management of long-term strategic nature. Crisis is enhanced by world financial crisis and became of dangerous nature generally for national safety. This cannot be removed only by fragmentary changes. Conducting of radical economic reforms with probably not popular measures are necessary for surmounting the crisis. Any economic crisis (especially the present one) destroys not only economic status quo. Under its conditions arises new economic conjuncture and interest to new directions of investments is forming. Due to all these anti-crisis measures should be based on forecasting of such tendencies. Specialties of crisis surmounting of Ukrainian industry are of finding resources and mechanisms of changes of structure of industrial production with orientation on decrease of amount and part of energy consumption, mostly of raw material branch and reduce its production to the level which gives possibility of avoiding of crucial state dependence from external sources of supply of energy. Ukraine should take an active position in solving of problems of new financial order and forming of new financial civilization on the basis of philosophy of trust.

© Serhiy Yuriy, Yevhen Savelyev, 2008.

Yuriy, Serhiy, Prof., Doctor of Economics, Ternopil National Economic University, Ukraine.
Savelyev, Yevhen, Prof., Doctor of Economics, Ternopil National Economic University, Ukraine.

Key words:

Higher education, export, mining and smelting complex, energy consumption, new economic conjuncture, new financial order, radical economic reform, service sphere, transport, philosophy of trust, financial civilization.

JEL: E66.

**1. Ukraine in the System
of World Financial Crisis**

For the first time in its history Ukraine found itself in a grip of crisis alongside with the world community, moreover, together with «the powers that be». That «partnership» somehow provides our country's present and former leaders the right to use the presumption of innocence, implying what could be done in case when little depends upon us, since the element, so unexpected and unpredictable came from outside. It is true; the events in world economy could not help effecting the Ukrainian economy. Specifically the demand for exportable production of Ukrainian enterprises decreased, and the world market was short of money resources for supporting imports and development of real estate.

But the questions arise, whether the world and national crisis are clashing; whether the scale and the depth of economic depression are fitting its place in the world economy, and its rate of integration into the world financial system; whether nowadays economic disturbances are of outer origin, or they have originated mostly on national ground. The answers to the above questions are of not so much accusative as of medical character. As far as the Ukrainian economic depression is dominated by home-made reasons, its surmounting needs concentration of the resources and efforts on internal Ukrainian problems.

At the beginning of the world financial crisis the thought dominated among the Ukrainian economists and politicians that the waves of economic quakes would pass by Ukraine. The main argument of the majority of experts was reference to the consequences of 1997 financial crisis that had started in South-Eastern Asia and then spread to Russia, East Europe and Latin America. Then Ukraine recovered fairly easy due to weak integration into the world financial market, as many experts see it. Though in reality the country was saved from bankruptcy due to the credits of international financial organizations, likewise thanks to comparatively efficient, rather accurate for that time, actions of the National Bank, and successful conversion of public securities.

The safe surmounting the 1997-1998 crisis produced an impression that Ukraine's economy started the stage of growing. Though in fact, no major changes had taken place from the view that the main reason of the crisis did not consist in external factors. Specifically, the basis of the Ukrainian crisis of that period was lack of the most critical system-based reforms. Historians will study and explain the reasons for that ignorance of reformation activity against the background of significant effect the latter produced in other countries in transitions. Nevertheless, we will not make a mistake saying, that Ukraine has the system created for economic policy subordination to the interests of certain oligarchic clans instead of meeting the tasks of long-term progressive development of the country as a modern European state formation.

Unfortunately, economic punishment of the government in 1998 for misdoings in economic management did not give ground for starting the extreme reforms. The post – Soviet economic pattern was abandoned, the privatization was made inanimately and inefficiently (the first and the last transparent privatization was «Kryvorizhstal' sale in 2005; the last but rather not the first non-transparent privatization and moreover, under the condition of top secrecy – sale of «Prominvestbank» in 2008)¹; the practice of direct budgeting of industries was applied and implicit subsidizing was used in the forms of tax privileges and special credits. The delay in resolution of those significant problems could be then allowed, since in 2000-2007 the GDP average growth rates exceeded 7%, the debt paradigm growth stopped, and some other important figures were also positive.² At that, it was not mentioned that the GDP growth rate for the years of independence has not reached the post-soviet figure, and in 2007 made only 72% of 1990 GDP.

For the period of transformation from administration and planned to a market economy the most significant errors were made in the area of strategic development. The country did not manage to determine and reach the economic security, and orient itself at accelerating the development of self-sufficient, independent, ever-growing economy, especially in the Eastern vector, the boundaries of which spread far beyond the post-soviet area. Though the seed capital initially was rather big to position in intergovernmental competition as a high-tech economy, the most significant losses of that period were conceded trends for lagging behind in new technological changes, as well as in the effective employment of limited power, human, and financial resources.

The research made at Ternopil National Economic University, enabled to systematize the internal reasons of economic crisis in Ukraine. In addition to others, the following fifteen are of specific importance: lack of system-based reforms in economy; absence of real improvements in the economic restructuring;

¹ According to mass media, in summer of 2008 «Prominvestbank» could be sold to Italians for \$ US 2.5 bln., and in October that year it was sold for \$ US 300 mln.

² It could be a pure accident, but that trend was peculiar to other world, which for a long time was riding high of the world GDP growth, and of stock exchange indicators increase, though the crisis features were obvious

privatization with no orientation on innovations and assessment of non-material assets; absence of long-term forecast of the world market conditions, and the management of all areas and levels subordination to the world market; crisis of post-soviet mode of entrepreneurial thought, that dominated in economic practice, specifically among financial and industrial groups; submission of economic policy to the interests of clans and oligarchic groups; orientation of monetary policy on the interests of big exporters; non-adequate and non-consolidated position of the Ukrainian power; great tax privileges provided to certain big enterprises and monopolies; growth of the balance of payments; high inflation rate; regime of fixed exchange rate; inadequate behavior of the National Bank in response to the events around « Prominvestbank»; mismatch of social policy and available economic potentials, and submission of the latter to political conjuncture; unqualified and biased mass-media approaches to the processes in banking area. Having studied the named internal reasons of economic crisis in Ukraine, we will see that the long-term economic recession is grounded on the absence of skills of forecasting of negative phenomena, and on their prevention and elimination. The destructive chaos, existing at the start of a new independent state transformed into the forms of wild capitalism with oligarchs at the head. Lately, the situation has been aggravated with the inconsistent macroeconomic policy and absence of political consensus.

As opposed to internal reasons, the external crisis phenomena has been created and increased lately, and they also produced the effect on the state of Ukrainian economy. Today's world financial crisis, with excessively cheap money and great exchange reserves in the developing countries, has no its equivalents, and therefore, it could not apply the patterns of the past. It is worth accentuating attention on some important aspects of the world financial crisis, that produced effects and will proceed effecting the Ukrainian economy. These aspects include lack of money supplies to keep the achieved rate of economic growth; decrease in demands for the products of mining and smelting enterprise; economic conflicts (gas, meat, milk, and others); absence of timely and efficient economic influences of international monetary organizations on economic policy of the country; outflows of deposits, and purchasing of exchange currency for future.

The destructive nature of the world financial crisis has been weakened due to comparatively low rate of joining the integration processes in international finances. If not for internal problems, the world financial crisis could be surmounted comparatively «with minor losses». Moreover, the leaders of big countries realize that they should avert the situation when the crisis would deliver a fatal blow to economically backward countries if they are let alone. The G-20 Declaration, held in Washington on November 14, determined the tasks for the developing powers to renew their credits, and resume the flows of private capital, that is critical in achieving the sustained growth of development, including the investments into infrastructure.

It is worth noting, that the Ukrainian crisis is beyond all comparison with the world one. With respect to the latter, it is under recession, since the predict-

able 1% decrease in 2009 GDP in the industrial countries does not seem irretrievable. In addition, under the predictable 2009 GDP rate the state of the world economy is much better as against 2007. The evaluation of the situation in Ukraine shows, that it is on the path to depression. It corroborates the thesis on the internal factors prevailing in Ukrainian crisis.

Thus, the dominant of present-day economic crisis in Ukraine is errors of state and corporate management of long-term strategic nature. That dominant is intensified by the world financial crisis, and becomes a general threat for national security. As far as the crisis gripped the whole economy, the partial changes will not help to surmount it. Surmounting the crisis requires **a sweeping economic reform** with probable temporary unpopular measures.

With respect to the problem of reformation and, specifically starting it, it should be taken into account, that any economic crisis (and particularly the current one) not only ruins the economic status-quo. In the conditions of crisis **a new economic outlook is emerging, and interest is arising to innovative trends of capital investments.** In connection with that, the anti-crisis measures should be based on the forecasting of the named trends, since they provide the best opportunities for rapid economic development oriented at getting ahead of the leaders.

The economy is very much like the sports, implying that the achievements of one generation of leaders are replaced by the other ones. We can only presuppose in general, what countries will head the economic progress in the after-crisis period. Undoubtedly, most of nowadays leaders will not cede their positions in future. At the same time, some other countries could probably crowd their rows. Under condition of the development and implementation of a new economic policy, that will concentrate the nation's efforts on successful overcoming the crisis, and achieving the high quality progress, Ukraine can also expect to be among the economic leaders. The role of the outsider country is not our destiny and perspective.

2. Structural Economic Reforms: Aspects of Mining and Smelting Enterprise (MSE) and Defusing of the Power Factor Acuteness in Industry

Last century Ukraine was the most important component for industrialization of economy in the Soviet Union. In late 20-s it was annually invested with 20% of all volume of capital, implying that out of 1500 new industrial enterprises, which had been built in the USSR, 400 were located in Ukraine. Some of those factories were of gigantic scales. Dniprohes, built in 1932 with the efforts of ten thousand workers, was the largest hydroelectric power station in Europe. The

largest among other plants of similar industries were also a new metallurgical plant in Zaporizhzhya, and tractor plant in Kharkiv. In the Donetsk – Kryvorizkyy basin there were so many new plants that the whole region resembled one huge construction site [6].

The history knows not a single society which tried to make great economic reformations for such a short period of time. In 1940 Ukraine's industrial potential seven times exceeded that of 1913, while the potential of Russia was nine times as much. In addition, the labor efficiency grew, while wages reduced, on the whole. Consequently, if the USSR managed to rate the second as against the former fifth place among the largest industrial countries, Ukraine, which in its production capacities equaled France, had turned into one of the most advanced industrial countries in Europe [3]. At present, the Ukrainian industry makes about 30% of economic added value, accounting for 35.7% fixed capital assets, and 46.6% of products of total volume of production [3].

In international economy of the last century it was the industry, that determined creation of social preconditions for further economic development, for formation of its structure, concentration of production, and for profound changes in organization and management of production (creation of monopolies, joint-stock companies, etc.), and, finally, for complete creation of world market. In this respect, Ukraine was not behind.

In modern conditions the situation has changed for qualitatively adverse side. The world is working in the conditions of a new information economy. Ukraine found it a great luxury to specialize on mining and smelting production having scanty resource base, specifically in the area of power. In 2006 the mining and metallurgical industries, including manufacturing of ready-made metal products made more than 30% of volume of realized industrial products. And that was under conditions when geopolitical situation was not in favor of that complex. Every year the country is convulsed when comes to final stages of signing agreements on imports of oil and gas, and begins a new year with the problem of common concern, namely, what new price brackets the countries-owners of power resource, and, primarily, Russia, will establish. In their turn, the politicians compete for gaining favor in sight of the owners of imported power resource.

Unfortunately, the Ukrainian mining and smelting enterprise has lost its competitive advantages, and has no real possibilities to wipe out the lag behind the enterprises of advanced countries and the new competitors, like China, India, etc. Practically, it induced the exacerbation of economic crisis in industry, as a result of that Ukraine dropped out of the first decile of steel producers, but stayed among ten the most energy consuming countries. In these conditions, the following challenge needs urgent resolve: what and in what quantity could be left for further reanimation, and what should be refused of with subsequent setting new enterprises to create new jobs for unemployed.

The ways for crisis surmounting are searched by all structures engaged in the MSE, beginning with organs of legislative and executive power, and finishing

with politicians, entrepreneurs, scientists, and representatives of many professions. Their proposals are more often concentrated either on a certain branch, or even on an enterprise. Thus, the offered proposals include the following: to sell gas for the mining and smelting enterprise by the price of its import (government); to create the demand on domestic market (in the conditions of total reduce of production?); to lower price for railway transportation of the mining and smelting enterprise products (that is, to aggravate the financial state of the public railroad? (government); to budget infrastructural projects, or to decrease dependence of Ukrainian metallurgy upon export, i.e. to create the construction boom conditions (the biggest metallurgy corporation Metinvest); to nationalize the collective-owned enterprises, that is to transfer shares to government in exchange for support during the crisis, but not to sell the enterprise to private investors, either national or foreign (Mariupol' Illich Metallurgic Enterprise); to review the schedule of the Company's fulfillment of its investment obligations, which had been incurred during the privatization of the enterprise (Kryvorizhstal').

It is clear, that each of the named positions could give a certain positive result. But most of them could serve as a «log in the ocean», on which one can float towards the shore with no chance to reach it. With the view of long perspective, we can not help seeing that for the mining and smelting enterprise it is not positive. Further development of the mining and smelting enterprise has no sufficient domestic basis, and in the current conditions it will not be able to function on the national power resources. Also, the experts have no arguments to predict its successful competition on the world market.

We should note here, that Ukrainian financial and industrial groups had forecast the change primarily in the world and national markets, and made efforts to diversify their assets. Partially those processes were directed at the formation of the completed production cycles, i.e. they chose the strategy of vertical integration. Thus, the «Metinvest» that produces 25% of Ukrainian steel, is completely supplied with iron ore and only by half is supplied with coal, has the well-run sales of almost half of its semi-finished products. The mines, the energy-generating and energy-distributing companies, which make the link within the production chain of the Donbas heating and Power Company, make the final business cycle. At the same time, the Ukrainian business of mining and smelting enterprise invested funds into the assets that don't belong to the main business, like communication, finances, and real estate. In particular, the financial and industrial group «System Capital Management» was the most optional [5].

Though for the last decade the Ukrainian mining and smelting enterprise created jobs for 550 thousand people, produced 27% of GDP in the country, and provided more than 40% of foreign exchange receipts from exports, it requires the determination of a new place in national economy, with the view of the available realities. While starting reforms, it should be taken into account that the development of power-intensive productions, and these are the mining and smelting enterprises, is not promising for Ukraine. Here are some figures to illustrate it. The 2006 aggregate expenditures of fuel in imputation for cast iron produced

in pigs and blocks, or other moulds made 628.9 kg., and for the foundry cast-iron it accounted for 637.0 kg. Those are the greatest energy consuming in national economy [2, 93].

The power factor should also be taken into consideration in the policy of economic development, as a whole. Economy is a consumer of 78% of power materials and products of oil processing [2,92]. According to the power balance of International Power Association, in 2004 out of 8014 thousand tons of coal in oil equivalent that is used by the industry in Ukraine, 6615 thousand tons or 82.5% is used for the production of ferrous metals. The situation in gas producing is, respectively, 1640 thousand tons, 6566 thousand tons or 40%. At that, in 2004 Ukraine spent 500 kg. of primary power resources in oil equivalent for \$ 1000 against the world figure of \$210. It is more than in Russia (\$490), the EU-25 (\$160), OECD – North America (\$220), and China (\$230).

Consequently, the industrial crisis surmounting does not imply to support all industries at any price, and primarily, the mining and smelting enterprise, that provided a significant share of currency receipts, but is losing its outer market, thus, having no chances to recover it in former scales. The way out consists in **finding resources and mechanisms for changing the structure of industrial production, and orientation at reduction of volumes and percentage of energy intensive, mostly raw material industries, to improve their production in order to avoid critical dependence of the government on external sources of power supply.**

The structural reformation of industry should be oriented at the development of modern productions. The earlier we refuse from the policy of governmental benefits provided to traditional branches of economy that brings about mostly to rapid depreciation of hryvnya the better. There are no grounds for expecting the growth of demand for metal on the world market, which would resume the former volumes of its production. Finally, the oligarchs would not make significant investments into modernization of production. They were the first, who had given up for lost of Ukrainian mining and smelting enterprises, regarding them exclusively as the sources of deriving quick profits for transferring business either abroad, or into other areas with lesser threats of re-privatization and greater proximity to a new economy.

Factually, the traditional industries, specifically the MSE, are turning into the ruins of Rome, arousing interest mainly among historians and tourists. The owners will take interest in them to such an extent, as how much opportunity they provide to derive profit. The problem will consist in the determination of volumes required for of internal consuming, and creation of relevant mechanism to support production. At the same time, a new program will be needed for structural reformation based on the ideas of a knowledge economy, and respective occupational retraining of human capital.

No matter how commonplace it may sound, but we have to accentuate on the necessity of transition to innovative model of development. It is an old truth, but the H-Hour has not yet been set. In the time of crisis surmounting the critical

moments are to enact the normative and legislative acts, which will ensure the functioning of innovation system of the second generation, and will provide integration of industry into the most modern international clusters, through which it will be possible to get access and transfer the innovative technologies to Ukraine.

3. Development of Economic Tertiary Sector

It is clear, that if the reforms in industry bring about the reduction in the demand in labor force, and threat to reduce the currency receipts, the necessity will arise to increase the rate of services. In modern economy the service area (tertiary sector) makes a core of postindustrial economy, and it rather determines its major macroeconomic parameters. It is connected with increase of mass processes, like automobilization, large scale involvement of women to production activity, urbanization, and movement of residents from the city centers to suburbs, increase of value of spare time, building up the capacities of big business, state strategies of formation of «the welfare society» and the development of scientific and technological progress, primarily, information technologies.

Nowadays, the named trends are intensely developing in the world economies. The peculiarity of trade in services is increase of their rate within total consuming expenditures of people. For example, in the USA it is about 60%, and provides jobs for 77% of population. That trend brought about the fact, that for the last one and a half decade (1990 - 2006) the service rate within the world GDP grew from 61.4% to 67%.

Ukraine is tending to develop services belonging to those areas which make the main contribution into the GDP growth. Their rates of growth exceed the dynamics of the GDP. The index of the provided services in 2003 made 121.0%, in 2004, 130.0%, in 2005, 126.2%, in 2006, 126.5%, and in 2007, 114.1%. However, that regularity is observed not only for the development of total amount of services, but also in the area of their realization on outer market. Thus, in 2007 the services export accounted for \$ 9038.9mln., that exceeds the figure of 2000 by 2.6 times, and the services ratio in national exports made 15.5%, which shows the country's significant potential in this area [3].

Though the development of service export tends to continuous growing both, in absolute terms, and in relative figures, the Ukraine's potential in increasing the role of the tertiary sector for the formation of a new economy is far from being exhausted. We can argue with all reason, that **the principal factor for renovation of economic structure should become the intensification of export orientation of the service area.** Under our estimation, the export development of following five kinds of services: transportation, building, computer,

education, and tourist, could ensure additional exchange receipts into the country for the nearest time by more than US \$ 10 bln. per year.

The export service structure by two thirds account for transport services (US \$ 111.7mln. under 2007 statistics), 40% of which are services of the pipeline transportation. That is the traditional Ukrainian export, and its reserves have not yet been exhausted. They are in the utilized capacity of the transfer pipelines, likewise in introduction of new capacities, specifically those of «Odesa-Brody» oil pipeline.

In addition, the other kinds of transportation services, which were paid little attention to for the formation of economic policy, also are very contributive. Ukraine has a great potential to compete in the area of air and marine transportations, specifically under the tough security policy. Nowadays the volume of marine transportation service export (US \$ 915.9 mln.) and airlift (US \$919.6 mln. under 2007 statistics) does not correspond to geopolitical situation of Ukraine.

The largest ratio of the world commodity circulation in international transportations accounts for marine transport, which is considered to be the principal one. For the latest decade it grew fifty times [4.332]. In the middle of the last century the volume of the marine transportations reached up to 525 mln. tons. Then it was computed in billions. Thus, in 1970 it was 2.6 bln.; in 1980, 3.7 bln; in 1990, 4 bln; in 2000, more than 5 bln. tons [1,3].

The Ukrainian policy in the area of marine transportation should be reminded of the near past, when the ships with the registration in our ports, could be met in the oceans and seas all over the world. It is well known, that the Soviet Union in late 80-s rated the second among the world countries in quantity of trade ships, and the fourth in the exploited shipping tonnage. A great ratio of that resource belonged to Ukraine. After the collapse of the USSR the Black Sea Fleet gradually began to fail. After Y. Kruk, the People's Deputy of Ukraine, the Black Sea fleet numbered as for January, 1 in 1992, 242 ships; in 1993, 234; in 1994, 221; and in 1996, 214 ships. The fleet losses were natural because of practical absence of funding. The freight traffic volume was almost lost, likewise the rout lines to Cuba, India, and Viet-Nam, that is, those routs, for servicing of which the Ukrainian marine fleet had been built. Besides, the mass cruise lines were also lost.

The design of national concept of the development of international transport services should base on the principle of comprehensiveness. It implies that the transport system should be represented with its all modes, which should be as far as possibly, regularly developing. At the same time, we should actively develop the domestic production of transport facilities on the basis of the advanced innovative developments and technologies. The general pattern of transport services could be designed under condition, that modern and proper network is being created of motorways and railroads, seaports and airports with the increased ratio of transport facilities concentrated in the ownership of national companies. It demands the state policy of renovation of the national transport park.

Moreover, Ukraine has great reserves for service export growth in the area of travel business. If in 2006 the volume of traveling services constituted US \$ 248.3 mln. or 3.3% of the total volume of services, in 2007, it was 342.2 mln. or 3.8%, for January through September 2008 those exported services made US \$ 417.3 mln., which was 4.7% of the total volume [3;7]. Though in this area the growth is observed, nevertheless, the present volume of travel export is rather scarce against that in Europe, where the big countries yield incomes from travels by some orders greater. Thus, in 2003 the export earnings from travels made US \$ 22.8 bln. in Great Britain; 23.0 bln. in Germany; 31.2 bln. in Italy; and 37.0 bln. in France.

From the view of the development of the hotel economy and other tourism infrastructure in Ukraine, it is not feasible for the nearest prospect to follow the guidelines of the European leaders, though in future those guideposts should be obligatory taken for the basis of national progress. At that, taking into account the measures on the preparation to the EURO-2012, there is a good ground to build the economic policy oriented at the earnings from travels at several billion dollars. Incidentally, in addition to implementation of the practice of the countries with traditionally developed tourist industry, the practice of those countries should be studied, which had managed to increase the inflow of foreign tourists, for example, like India. That country's success in creation of tourist centers, micro-hotels, restaurants, the advertisements of tourist opportunities could serve good for Ukraine.

Also, Ukraine can undoubtedly gain significant receipts from construction services export. Nowadays their volume is minor making only \$ 164.3 mln. according to 2006 statistics, and \$ 98.5 mln. in 2007. And that situation is under the condition of availability of many thousand builders who legally and illegally have been working throughout Europe, North America, and Russian Federation. Presently, from the building industry abroad Italy gains \$ 2.1 bln.; France, \$ 2.8 bln.; Japan, \$4.5 bln., and Germany, \$ 7.0 bln. While those countries do not find it feasible to activate the construction business abroad because of its high labor intensity, the market of construction services could be of great interest to Ukraine.

Among the most intensive developing markets is one of information and communication technologies (ICT). At the moment, the world export of information and office facilities accounts for \$ 750.blm., that exceeds total volumes of oil of all oil producing countries. The ICT export is expected to grow more than threefold till 2020. For the latest decade many players from the developing countries turned out to succeed on the ICT market. In particular, they were from India, Singapore, China, Malaysia, South Korea, Indonesia, Pakistan, Brazil, Thailand, Chile, Mexico, Argentina, Venezuela, and Columbia. In other words, the whole world is involved now into the information and computer technologies business, and if a country is unable to find its niche, then even on the domestic market it has foreign competitors, who «destroy» a national producer. Ukraine as the country with long-standing scientific and technological traditions in this area, as well as with great potential in educational provision of its development,

is doomed to fight for its specific place on the international market of information services.

Among the objectives of the tertiary sector development we should determine the one of the leader position formation in the international educational area. At that, it is worth taking into account, that on the world market not only (and in some countries not as much as) the educational services as such, but the nations, their reputations, perspectives, and long-standing cultural traditions have been competing. Therefore, we can argue, that with no extra efforts the developed countries have great advantages. The leader on the market of educational services (about \$ 15 bln. per year) is the USA, for whom, like for the former USSR, higher education of foreigners is primarily the long-term global policy, against the short-term local economy.

The strategy of Ukrainian educational services export should ground on the fact, that our country as a European one, has well developed educational systems, which for many centuries, and in particular for the latest decades, ensured training of specialists able to stand competition on the world labor market. From the view of Ukrainian realities, the expansion of educational services on outer market (in case of policy concentration in this direction) should pursue, at least, the following aims. First, expansion of opportunities for the development and support of intellectual potential in the country. Second, getting the additional sources for break-through in the research area. Third, development of education and science as a certain business line.

The potentials of Ukrainian educational establishments on the international market of educational services were evaluated at one of the collegiums of the Ministry of Education and Science of Ukraine with the participation of the President of Ukraine. Proceeding from the evaluation, Ukraine can teach 500 thousand foreign students per year (at the moment, about 40 thousand foreign citizens study in Ukraine). To illustrate the advantages the national economy will get, we will site the information on the USA of the Institute of International Education, where in 2007 - 2008 academic years a number of foreign students made 623.8 thousand that is 7% exceeding the figure of 2006 -2007 a.y. with 3% growth against the preceding one. The students spent \$ 15.5bln. exceptionally for the tuition fees and lodging, which makes the educational system a leading export sector of the American economy.

The cultural and linguistic factor plays an important role for attracting foreign students. It's just the reason why English – German and French – speaking countries are the most popular among the young people. That trend should not be opposed; it should be integrated into, and should be employed. The quicker and wider the academic programs in the European languages (first of all, in English) are developed, the more dashing steps of the higher educational establishments on the international market will be. The idea of establishing the higher educational institutions with the teaching languages of Asian and African countries is also worth paying attention to.

The employment of Ukraine's potential as a country, as well as use of the Ukrainian leading institutions for exporting the educational services requires the relevant reforms of liberal nature. Among them we can specify the following: provision of right to open the branches and joint educational institutions with foreign partners abroad; encouragement of scientific and technological personnel repatriation (for example, reimbursing their transport expenditures, and those for job seeking; granting special scholarships); concluding intergovernmental agreements on recognition of Ukrainian diplomas, and accreditation of Ukrainian universities abroad. These are some separate export-oriented aspects of educational system reformation. Having the critical decisions of strategic nature made, some other problems will arise. It could be, for example, these concerning establishment of Ukrainian centers of science and culture abroad; creation of visa facilitation for probable foreign enrollees of the Ukrainian educational institutions; funding of the construction of dormitories for foreign students, etc.

A significant break through in the educational services export can be reached under condition of the development and implementation of ***the state policy of educational services import oriented at their export***. It is just the effective import of education that enables those striving to become leaders. A good example of that are the leading American Universities, who had been founded with the participation of the European educational establishments, and due to the personalities with the European education. Now the situation has changed, and the American universities surpassed the European ones in ratings and prestige.

With respect to the import of education, the preference should be given to encouraging Ukrainian citizens for receiving complete higher education and, PHD degree abroad, and engagement of the leading foreign scientists for the positions of Rectors, Deans, Heads of the Departments, and Professors. In the first case we should refuse the practice when the teaching abroad is oriented only at grants and private funding. The government itself should take care of the bright young people to be taught at the advanced world universities, and the conditions should be created for their further efficient employment. As for the scientists attracted to work in the system of higher education in Ukraine, the restrictions should be abolished for providing those jobs and wages.

Though it sounds paradoxically, but it is true, that we are the country that suffers from the «brain outflows» and at the same time it does not show any activity to build up the reverse trends. At the moment, for example, about 1.5 mln. of scientists and engineers of foreign origin work in the USA, and about 2mln. are employed in the EU [8,71]. The peculiarity of certain categories of educational establishments, specifically of business schools is the formation of international teaching staffs with prevailed number of foreign specialists, and organization of teaching process in the English language. This practice is rather to be an exception than the available conscious trend in the system of Ukrainian higher education.

4. Financism: a New Financial Order

To describe the entering of the world economy the third millennium, many economic scientists tend to use the term «financism», and «financial or geo-financial economy». Financism is the transition from traditional patterns of financial management to new ones, with dominating processes of equilibrium of interrelations between real and virtual economies. The contradictions between them are regulated through crises, which nowadays are not exceptionally industrial, but mostly financial ones. The crises often start with certain financial centers, and subsequently they acquire the global nature. Therefore, the urgent problem arises of a **new financial order**, and it has been brought to the forefront by the world political leaders, practical financiers, and scientists. The problem arose in the process of the accelerated development of the old, and formation of the new global and regional financial centers. The countries of the Persian Gulf, and the South-Eastern Asia, China, Russia, India, and Brazil that accrued great gold and currency reserves step by step enter the circles of financial leaders. The perception and adherence to the principles of financism ensures a long-term economic security of the country, the under-estimation of which originates economic and social chaos. Essentially, a new financial order includes the features that could be justly taken for a **new financial civilization**. The latter requires a global thinking and regulation, and a facilitation of international flows of capital. In addition, the stock exchange consolidation is becoming an important trend. The mechanisms should be developed to prevent the emergence of so called financial «bubbles», specifically on the oil, gas, exchange markets, and on the real estate market. Not of the least importance is to guarantee the balance of state budget, fight against inflation, following the transparent foreign exchange policy, and proper debt servicing.

The new financial civilization implies that the country, enterprises, and people should finally learn to live on their own account. It is necessary to build up (formulate) the financial thinking of the nations, who do not receive populist decisions, bringing about the deficit of budgets and the deficit of payment balances. And the citizens should build up awareness under principles of not striving to the comfort life which does not coincide with their incomes. The reverse trends should be opposed by effective institutions, enabling to take a strong line, and which have fair leverages for timely stabilization of financial system.

The new financial civilization is based on *the philosophy of integrity*. Ukraine has become a leader in the world financial crisis primarily because of the loss of integrity to state power, and to national and international economic organizations. The crisis became obvious for the majority of nation after the events on the foreign exchange market when hryvnya fall had started. There was a «psychological barrier» when hryvnya devaluation was excluded. As far as we see it, the dollar exchange rate should not exceed six hryvnias. The National Bank and government had to realize, that in the current conditions the hryvnya devaluation would not be able to save the well known exporters (though

it could decrease their problems for some time). Nevertheless, they «had no heart «to cease the process. Eventually, if someone managed to improve their situation, those were the banks, not their clients. Thus, while the banks issued credits, they earned, and when they did not issue, they also earned. We are not for the domino effect, which could be produced by the fall of only one structural bank. But the way out was not the best to make transition from the pattern of settlements when those who had interests, paid to the banks, to the current model according to which the banks' deficiencies should be paid by the hryvnya depositors. The loss of integrity stimulated a mass psychosis, as a result of which it is difficult to determine the boundary for the sufficient amount of foreign exchange currency inflows.

The depositors of national currency have a great many of questions to the NBU, the absence of answers to which discredits the regulators of currency market. In particular, why were not taken timely measures on the one time hryvnya adjustment to unable the decrease of foreign trade imbalance without imbalance of currency market? Why have the Ukrainian citizens been deprived the right to use their deposits, while the non-residents have been allowed to withdraw the exchange currency from the Ukrainian economy? Why after Naftohaz had purchased dollars for settlements with Russia, hryvnya «meltdowned» on the inter-bank market? Why were non-residents allowed to change hryvnya deposits into those in foreign currency for their subsequent transfer abroad? Why has not the government timely fix its liabilities at the exchange rate existing at the beginning of the crisis for curbing the «exchange currency psychosis»? Why has not the decision been taken on the allowance for the currency credits payments, at least in hryvnyas at the current official exchange rate? Finally, why is the hryvnya exchange rate to dollar is yearly lower its purchasing power, which is lower of so called «big Mc index», which as for 24.07.2008 equaled to 3.08? Those whys are a great many, and the absence of answers deepens the confidence in all the institutions, without which the crisis surmounting is impossible. Has the credit to financial institutions and government been lost for ever in Ukraine, or not? We believe, that not for ever, but it is likely that for a long time. At least, it will proceed till the time when the power in all its hypostases will guarantee the financial organizations' keeping the capital in the volumes which could restore the lost confidence. With this aim in view, the international standards should be approached to meet the requirements on the volume of the bank own capital, specifically concerning structured credits and securitization measures. The G20 Declaration notes, that the firms should reevaluate the pattern of risk management against stresses, and report on the results at the supervisory organs, and the Basel Committee has to study the need in the development of new models of testing for resistance to stresses. These principles should be taken into account by the national organs responsible for the financial state of the country.

Bibliography

1. Андрианов В. Современные тенденции и перспективы развития морского транспорта // Маркетинг. – 2005. – № 4.
2. Державний комітет статистики України. Статистичний щорічник України за 2006 рік. – К., 2007.
3. Державний комітет статистики України. Статистичний щорічник України за 2007 рік. – К., 2008.
4. Індустріалізація України // http://www.kmu.gov.ua/control/uk/publish/printable_article?art_id=45458842
5. Могилевкин И. М. Транспорт // Мировая экономика. Глобальные тенденции за 100 лет / Под ред. И. С. Королёва. – М.: Экономистъ, 2003.
6. Олігархи під час кризи. СКМ, ІСД, Приват, East One та «Енергетичний стандарт» // <http://www.economica.com.ua/metal/article/164241.html>
7. Радянська Україна: драматичні 30-ті // <http://www.infoukes.com/ukreimb/history/SUBTELNY/21.htm>
8. Соціально-економічне становище України за січень–жовтень 2008 року // <http://www.ukrstat.gov.ua>
9. Цапенко И. Международная миграция специалистов и студентов // Вопросы экономики. – 2005. – № 7.

The article was received on December 15, 2008.