



**Economic Theory**

Maria LYZUN

**ECONOMIC GROWTH MODELS  
OF THE WORLD  
AND THE UKRAINIAN ECONOMY**

**Abstract**

The paper considers economic growth models and determines the features of their application. The author analyzes the transformation changes in the Ukrainian economy and the choice of economic growth model for Ukraine, as well as formulates basic pre-conditions and principles of the model of leading economic growth.

**Key words:**

Economic growth models, transformation, economic policy, «growth points», leading economic growth, hi-tech production, global economy, scientific and technological advance.

The recent decade is characterized by strengthened interdependence of the countries with different level of development and increased external pressure on a separate country. The key element of economic development, the general target of economic policy is achieving the economic growth that would provide not only a quantitative increase in GDP, but also improve the living standard of a population, create a modern competitive economy.

---

© Maria Lyzun, 2006.

Lyzun Maria, Candidate student, Department of International Economics, Finance and Credit Relations and Marketing, Ternopil State Economic University, Ukraine.

Reducing the gap in the indices of living standards in Ukraine and the developed countries is the strategic purpose of economic development of our state. In order to determine main factors of economic growth, it is necessary to study the experience of the countries which managed to enter the group of the developed countries thanks to effective economic policy and high rates of economic growth.

Lately, an important characteristic of the environment where economic models will be formed and realized is the becoming and development of the global economy. Spread of the tendencies of economic globalization puts a question concerning the construction of a new paradigm of an economic model. Receiving the advantages and preventing the threats of globalization depend on the possibility of creating a clear reformation model of the economic system and adhere to its principles.

The scientific basis for the study of economic growth was developed by the Ukrainian and foreign scientists, such as V. Geets, L. Jalilo, L. Lykinov, A. Filipenko, M. Tygan-Baranovsky, V. Inozemtsev, G. Kolodko, V. Mau, M. Porter, S. Kyznets. However, these questions need subsequent comprehensive elaboration and research.

The purpose of this article is to choose the economic growth model for Ukraine on the basis of the study of foreign countries' experience.

There are permanent changes in the modern world economy, which take place in every separate country as well. The essence of socio-economic transformation in its general view is determined to change the present economic system. For the choice of economic growth model, it is important to study the practical experience of other countries. The combination of theoretical and practical experience with the national features of a country will enable to develop the conception which will allow providing high rates of economic growth.

It is necessary to separate such three groups of national economic growth models:

1. The models of the countries which renewed their economies starting with high initial levels. This group includes such countries as Germany, Italy, France, Japan and Ireland.

2. The models of the countries which realized transition from the lagging to the modern competitive economies. These models were the basis for development of the countries which belong to the second, the third and the fourth «waves» of economic growth in South-East Asia and India.

3. The models of post-socialist countries.

It is necessary to note that one of the major characteristics of successful growth models was the primary assistance of private sector development, strengthening of national producers as a primary element of national economy, the renewal and expansion of their connections. In Western Europe after the Second World War, the renewal of effective agents of private property did not

require considerable efforts. In Japan and NIC, and especially in transitional economies, it was on the contrary. Japan and NIC laid the foundations of the stable economic system due to application of the strategy of providing assistance to the development of national enterprises, institutional methods of their co-operation, support of public and private property.

There is an opinion that the guarantee of success is low levels of inflation, exchange rate and budgetary deficit. However, the analysis of national growth models shows that during use of an effective economic policy these indexes are not determined. In many countries, which had high rates of economic growth, such problems were present (Table 1).

Table 1.

**Presence of Retentive Factors of Economic Growth in the Countries That Attained High Level of Economic Development**

| Indicator   | Countries                                |
|---|--|
| Budgetary deficit                                       | Japan, South Korea, Italy                |
| Inflation   | France, Italy                            |
| Low reserves of natural resources                       | Singapore, Japan, South Korea, Hong Kong |
| Expensive labour force, high level of social guarantees | Germany, Sweden, Japan                   |
| Highly centralized administrative system                | China                                    |
| Strong trade unions                                     | Germany, Japan                           |

Source: constructed by author.

Experience testifies that the countries which expressly followed the tasks of economic strategy attained big success. In these states, the tasks of economic strategy were subordinated to stabilization of the economy and providing of economic growth. Instead, the experience of other countries demonstrates disparity in the aims of economic policy. The practice of Latin American countries is an example of transition from surplus public property to the unjustified priority of monetary stabilization and balance of payments equalization at the expense of the other tasks of economic stabilization.

An obligatory element of successful reforms in all countries was the leading development of human capital. World experience proves that the living standard of all sectors of population, as well as socio-economic situation in the coun-

try, is determined by the degree of the society's education and its attitude toward intellectual values.

During market transformations in the post socialist economies, there was a long-term process of change in the character of economic growth cycle. There, four groups of post socialist economies were formed.

The first group is the «catching-up» countries; it includes the economies capable of sustaining the rate of GDP growth at least twice higher than in the advanced market economies over a very long term. As a benchmark, the growth rate in the EU can be used. It is possible to assume that in the future, the growth rate of countries of the EU will stay at the level of about 2.5%. This implies that the annual growth rate during the coming decade will be about 5%.

The second group, the «even-runners», will be able to maintain the pace of growth similar to or slightly higher than that of the EU, so it will oscillate around 3% on average, fluctuating between 2% and 3%. As a result, these countries will not be catching-up with the most advanced part of the European economy, or even if the will, it will happen very slowly. Consequently, the relative distance between these two groups will change only very modestly, yet given different bases, the absolute distance will rise still further. Moreover, the development gap between this group and the «catching up» countries will increase.

The third group can be called «the laggards» due to the lack of ability to take transition to their own advantage; these countries will grow over the long term even less than the EU economies. Their long-term growth will not exceed 2%. National income grows in the countries of this group, but over the long-term period, such growth will be very small.

The fourth group includes the leading countries. These countries will enjoy an average rate of growth of around three times higher than in the EU, i. e. 7.5%. Such growth rates will approach the countries of this group to the level of development of the EU countries [10].

The transformation processes in the post socialist economies were characterized by the absence of similar transformations in the world practice, and as a result, there appears the borrowing of stranger models of economic development. Reformation of post socialistic economies was characterized by large drops in GDP. For returning to the initial production level in the country where GDP diminished twice, it is necessary to have the growth rate of no less than 7.2% per year during the next decade. When the fall of GDP is 2/3 and given the growth rate is 5.7%, it will take 20 years to completely renew the losses [15].

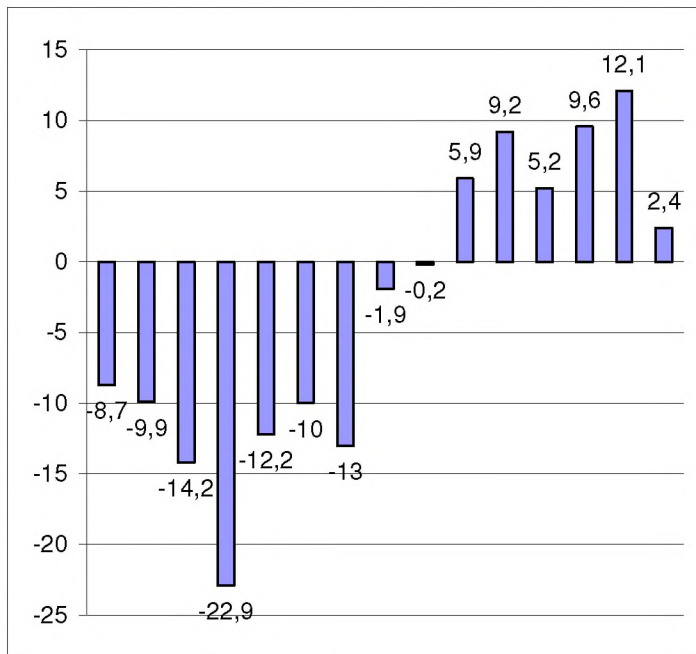
The fall of GDP per capita in Ukraine caused its backwardness in the level of profits and other indicators of living standards compared to market economies. The economy had most losses during the first period, when the fall of GDP, by different estimations, was about 50%, and almost 60% for the whole period [13]. However, this does not mean that Ukraine can not catch up with the developed countries. The USA needed 47 years to double its GDP per capita, Japan – 33 years, Indonesia – 17 years, South Korea – 10 years.

The trends to diminishing decline and economic stabilization and growth appeared only in 2000. Achievements in the development of the economy of that year allowed creating fundamental principles for stabilizing the situation and transiting to initial economic growth (Figure 1). According to this index, the most crisis year was 1994. The most successful year was 2004 (first of all due to positive changes on the world metal markets).

In the recent years, the economic growth created pre-conditions for realization of positive changes. Taking into account the growth rates of the European economy for the last 6 years, it is possible to assume that this index in the future will be at the level that does not exceed 2.5%. The analysis of the Ukrainian economy shows that during 2000-2005, the average annual growth of GDP was 7.4%. It necessary to note that the new period of development can slow down economic growth temporarily. This tendency was observed already in 2005, when the increase in GDP was 2.4%. The forecast of the Ministry of Economy of Ukraine shows gradual increase of economic growth rates: in 2006 – 2.8%, in 2007 – 4.2%, and by 2011 – nearly 8%.

Figure 1.

Year-on-Year GDP Changes in Ukraine (1991–2005), % [13]



As an average annual economic growth for the last 6 years in Ukraine exceeds the respective index of the developed countries (EU countries) by almost 3 times, such growth can be considered as leading. The important task of the current period is to provide for high economic growth rates in the future.

The growth of GDP due to extensive factors, as well as material-wasting and energy-wasting production, is not perspective. Postindustrial development of Ukraine is only one possible way today. It is the way of development of the developed countries, their economies and social policies. Principle directions of modern economic policy must be determined by the peculiarities of this period of economic development and challenges of the modern time. The main task for Ukraine is the economic growth with structural changes, which will provide movement of our country in direction of integration with the developed countries.

It is necessarily to note that structural reforms under the modern conditions can be successful only within the framework of the leading development model. Thus, leading growth is economic growth that exceeds the respective index of the developed countries by almost three times, is determined by structural and technological modernization taking into account postindustrial tendencies and is based on and driven by humanization, with the purpose of increasing the welfare of the population.

The elaboration of the leading growth model for Ukraine must take into account new tendencies in economic development.

Firstly, in the world on the verge of XX–XXI century, there was a gradual transition to postindustrial, information society, where the most essential and expensive resources are know-how, services of education and health protection, innovative human potential, and other cultural values. Those economic systems that have them possess the best conditions for economic development.

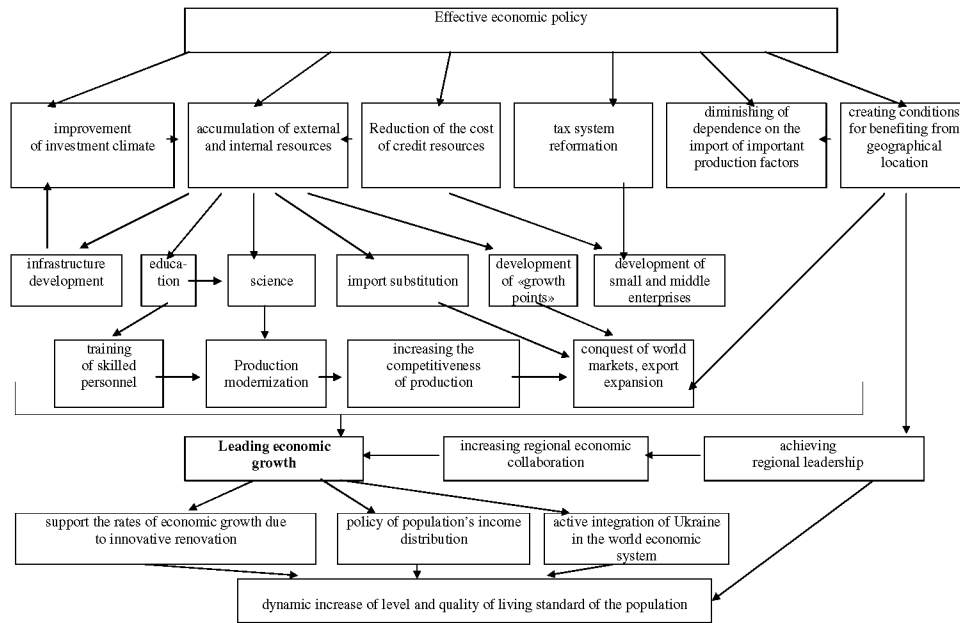
Secondly, in the conditions of globalization and internationalization of economic development, solving the problems of leading development in any country is possible only through dialog with the world community. We need to search for the ways of creating the «economy for an individual» by accumulation of national values as a main strategic resource of the future. By creating this resource in large scales, it is derive others— industrial, agricultural, etc. — both by internal production and international cooperation.

Thirdly, for elaboration of the leading development model, one needs to use the vast historic experience of the periods of the new economic policy (1921–1928) and the «Khrushchev thaw» (1958–1962).

Taking into account rapid development of the Ukrainian economy over the long term and the features of its development at the modern period, we can build the model of leading economic growth for Ukraine (Figure 2).

Figure 2.

**Leading Economic Growth Model for Ukraine**



Source: constructed by author.

In the leading growth model, special importance is assigned to the problems of the effective use of scientific and industrial and technological potential, its integration into the world economy. Important directions include the development of the processing industry, the transition from material-wasting to scientific hi-tech production, the conquest of international markets in the sphere where the country accumulated leading technological and powerful production potential.

The main directions of the leading growth model are the following:

- education, which means the sphere of «production» of human-innovator – main «production force» of progress, single whole system of studying and stable increase of population's qualification with the purpose of achieving the trajectory of stable growth of qualification and innovative potential of workers;
- fundamental science, i. e. «production» of information and know-how as main products for the national and the world markets;
- health protection and recreation.

In our opinion, the important direction for the realization of the leading growth model is the accumulation investment resources in the «points of growth». It is logical that in Ukraine, which is included in five of the world countries with a large number of graduate programmers, one of the «points of growth» can be high-tech. The experience of Ireland shows that this country managed to multiply the volume of GDP by 2.1 times and increase direct foreign investments from 1.5 to 23 bln. euro in 7 years (1995–2002 years). The main investors of Irish economy were American high-tech companies, which in the middle of 1990-ies searched for the place to start their campaign on the strategically important market of the European Union. Today, on the territory of «Celtic tiger» located are the European centers of almost all leading IT-companies of the world, and information technologies provide the first item of revenues of the Irish economy [12].

It is necessary to note that the elaboration and realization of the leading growth model in Ukraine must be directed not only towards technological leading, but also towards the increase of the living standard of the population.

The multiplication of the profitability of production should take place due to STP and other intensive factors, such as high wages and social guarantees. The experience of Japan and Germany shows that in such conditions it is possible to develop and provide high rates of economic growth.

Investment resources are of large importance in forming the leading growth model. For this purpose, the economic mechanisms of stimulation of the accumulation processes and effective use of investment resources can be applied in accordance with definite priorities.

The presence of clear economic policy will allow to mobilize all possible national sources of financing and to concentrate international investments on the tasks of leading growth. In the long-term perspective, the government should use the policy of providing the political, economic and social stability and predictability. The achieving of this purpose for investors is more important than tax reductions or other privileges.

The urgent task of Ukraine is stimulation of market competition, creation of favorable conditions for the receiving of financial resources by enterprises and improvement of capital assets, increasing production output of enterprises with high degree of processing and high added value. Another important direction is infrastructural support of leading industries. There are reserves of increasing the economic activity, combination of possibilities of social and technological progress acceleration.

In order to provide leading growth rates, it is necessary to actively apply such measures as tax stimulation, favorable crediting, governmental special-purpose programs, assistance to venture capital, and improvement of investment climate.

The strategic purpose of the hi-tech direction of international economic relations development of Ukraine in the long-term perspective consists in realiza-



tion of the competitive advantages related to forming the new structure of national exports, in transition from exports of raw materials to exports of high value-added products, as well as in the mastery of the «new economy», which would correspond to modern trends in the development of the world trade.

### Bibliography

1. Геєць В. М. Нестабільність та економічне зростання. – К.: Інститут економічного прогнозування, 2003. – 344 с.
2. Колодко Г. Глобализация и перспективы развития постсоциалистических стран / Пер. с польск. – Мн.: ЕГУ, 2002. – 200 с.
3. Майер Джеральд М., Раух Джеймс Е., Філіпенко А. С. Основні проблеми економічного розвитку. – К.: Либідь, 2003. – 688 с.
4. Мау В. Догоняющая модернизация в современной России // Проблемы теории и практики управления. – 2004. – № 4. – С. 13–16.
5. Мікловда В., Пітюлич М., Шинкар В. Макроекономічні тенденції стабілізації економіки України і перспективи економічного зростання // Регіональна економіка. – 2004. – № 1. – С. 7–15.
6. Симовьян С. В. Экономический успех: пути его достижения. – Харьков: ИМП «Рубикон», 1998. – 384 с.
7. Соколенко С. Стратегії економічного росту та формування нових виробничих систем в епоху глобалізації // Економічний часопис–XXI. – 2003. – № 5. – С. 11–16.
8. Ultima ratio економічних реформ. – К.: Кондор, 2003. – 240 с.
9. Gills M., Perkins D, Roemer M., Snodgrass D. Economics of development. – New York: Norton & Company, 1992.
10. Kolodko, Grzegorz W. «Structural Reform and Economic Growth in 2002–03», 2003.
11. World Development Indicators 2005// Internet. <http://worldbank.org>.
12. [www.imf.org](http://www.imf.org).
13. [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).
14. [www.wto.org](http://www.wto.org).
15. [www.worldbank.org](http://www.worldbank.org).