

Inclusive Development of the Ukrainian Economy

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Abstract – It is determined that inclusive development comprises processes of economic growth and development, inclusiveness as a system of inclusions, takes into account the anthropogenic burden on the ecosystem, as well as the relational nature of socio-economic transformations. Inclusive growth is based on the concepts of sustainable development of the knowledge economy, human centrism, neo-industrialization, green economy, neuralism. The methodology of the World Economic Forum for assessing the inclusive development level has been adapted to the conditions of the regional economy of Ukraine. The inclusive development level of the regional economy in 2013-2017 is analyzed, the main imperatives of inclusive growth in Ukraine are determined.

Keywords – Inclusiveness, inclusive development, inclusive growth, regional development, economy of Ukraine

1. Introduction

Since the declaration of independence, transformations of socio-economic relations have been ongoing in Ukraine.

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For this period, privatization has been carried out; conversion to the model of decentralized state

administration and deregulation have been made; foreign trade, price, fiscal, tax and banking policies have been liberalized [1], [2], the course to European integration has been announced; measures have been taken to improve the investment climate and increase foreign investment.

In other words, the basic requirements of the Washington Consensus have been systematically fulfilled, which was recognized in 2011 as devastating to most developing countries by the World Economic Community and the International Monetary Fund, considering it as the cause of the global financial and economic crisis in 2008-2009.

Unfortunately, Ukraine also did not escape the negative effects of the Washington Consensus.

Thus, in recent years, the GDP growth, the real household incomes and the employment rates have declined; the inflation rates, the total public debt have increased; and the level of economy shadowing, according to official estimates of the Ministry of Economic Development and Trade of Ukraine, has exceeded 30% of the GDP.

The national economy has become export-oriented, commodity-oriented, and foreign investment is mainly directed at financing the rent-oriented behavior of economic agents.

As a result, this led to a class stratification of the society, forming an almost dual structure in it: a class of elites, and those who somehow suffer from deprivation [3].

It is clear that neoliberal globalization is ineffective, combined with the laissez-faire principle, causing slower economic growth, contributing to significant depletion of natural resources, and poverty increase, especially in rural areas.

That is why in most developed countries of the world in 2010-2017 they made a civilizational choice in favor of inclusive development and inclusive growth models.

Based on the above, assessing the inclusive development of the Ukrainian regions is an urgent problem, and this scientific research has been done as an attempt to solve it.

2. Literature Review and Theoretical Grounds

Inclusive development emerged in the dialectical process of successive changes in the phases of integration and disintegration in the paradigms of capitalism and liberalism.

D. Acemoglu, I. Ali, J. Blanke, W. Wei, J. Gupta, M. Drzeniek-Hanouz, R. Kanbur, G. Corrigan, D. Craig, K. Polanyi, N. Ngepah, D. Porter, N. Pouw, G. Rauniyar, J. Robinson, M. Ros-Tonen, R. Samans, H. Son and many others devoted their researches to theoretical and methodological foundations of inclusive development, inclusive growth, peculiarities of inclusive institutions provided in the national economy and society.

Scholars D. Porter and D. Craig proved that the inclusive trend in economic theory is methodologically based on reactionary policy to neoliberalism, as well as on the concept of increasing the number of “inclusions” in the economic system aimed at restoring society on the basis of totally institutionalized and comprehensively integrated liberal actors, principles and programs [4].

Karl Polanyi was also one of the first scholars to demonstrate the institutional nature of inclusiveness. He emphasized that human economy is a complex system of economic and non-economic institutions [5].

Continuing and extending K. Polanyi’s studies, economists D. Acemoglu and J. Robinson substantiated the institutional theory of inclusive economics.

In their opinion, institutions that not only allow but also stimulate the participation of large population groups in economic life should be considered as inclusive, making it possible to use their talents and competences in the best way, and simultaneously retaining the right to freely choose their workplace and purchase economic benefits [6].

The basis of inclusive institutions is the private property rights protection of all citizens, the right to freely choose a profession, an impartial justice system, equal opportunities for all without exception to participate in economic activities, and free entry to the market of new companies [6].

Inclusive institutions promote accelerated economic growth, increased productivity and the level of national well-being; help to create inclusive labor markets, to form the basis for economic growth, i.e. technological innovation and high quality education; reduce the amount of political rent [6].

In the environment of inclusive development, technological innovations provide a change in technological arrangements, enhancing the productivity and intensity, using all means of production.

Moreover, innovation activities are based on scientific achievements and a favorable climate for venture entrepreneurship.

Education, based on a competent approach, is also at the forefront of inclusive institutions.

D. Acemoglu and J. Robinson point out that low level of education in poor countries is due to the fact that economic institutions do not create incentives for investing in children's education, and political institutions do not force governments to build schools, hire teachers, and they do not demand that the pedagogical staff quality of educational institutions must meet the requirements of children and their parents as investors [6].

Therefore, inclusive economic institutions need state interposition, which, in fact, means that inclusive development in the free market and laissez-faire is impossible.

Recent studies of the Rockefeller Foundation show that the content of an inclusive economy has expanded substantially, and the driving force behind progress is solely the well-being factor of the citizens.

According to the experts of this foundation, the economy can be regarded inclusive if there are considerable opportunities for complex social development, especially for those members of the society who have obstacles to provide their well-being [7].

The economic content of the “inclusive development” definition was finally formed in 2012–2017. Currently, inclusive development comprises processes of economic growth and development, inclusiveness as a system of inclusions, takes into account the anthropogenic burden on the ecosystem, as well as the relational nature of socio-economic transformations.

It is inevitably accompanied by the development of the knowledge economy, the noospheric and cultural development of the society, the modernization of economic management systems on the basis of planarity, interactivity, publicity and democratic centralism in making informed decisions.

Inclusive growth is a central element of inclusive development, which is the main source of sustained economic growth.

With the emergence of the inclusive economy concept, the problem to justify a system of indicators and methods for assessing its development at the regional, national and international levels appeared to be solved.

With the dominance of the “development in the interests of the poor” paradigm, the emphasis in the assessment was on the dynamics of the GDP per capita, the analysis of uneven income distribution in society, monetary, non-monetary, absolute and relative criteria of poverty, deprivation characteristics of the population, accessibility of the population, etc. In 2015–2017, a significant refinement of the

inclusive development paradigm and a corresponding set of descriptive macroindicators took place.

Thus, it can be claimed that most of the analyzed works are devoted to solving specific problems of inclusive development, attempts to assess its level in a certain country in the world, refining the paradigm principles of inclusive economy, inclusive development and inclusive growth.

At the same time, the inclusive development paradigm of the national economy, the theoretical and methodological basis of inclusive growth and the genesis of its formation need further comprehensive study.

3. Research Approaches and Methods

The updated methodology for assessing the inclusive development level was worked out by scientists in R. Samans, J. Blanke, M. Drzeniek-Hanouz, and D. Corrigan in 2017 [8].

The methodology and the calculations made on its basis for 74 countries of the world were approved at the 48th World Economic Forum, held on 23-26 January, 2018, in Davos, Switzerland, as a basis for international comparisons, development and adjustment of global UN, OECD and EU strategies, as well as the national strategies of member states of these organizations.

The generic indicator of this methodology is the Inclusive Development Index, based on 12 macroindicators joined into three groups: Growth and Development, Inclusion, and Intergenerational Equity and Sustainability, characterizing the main determinants of an inclusive economy (Fig. 1.).

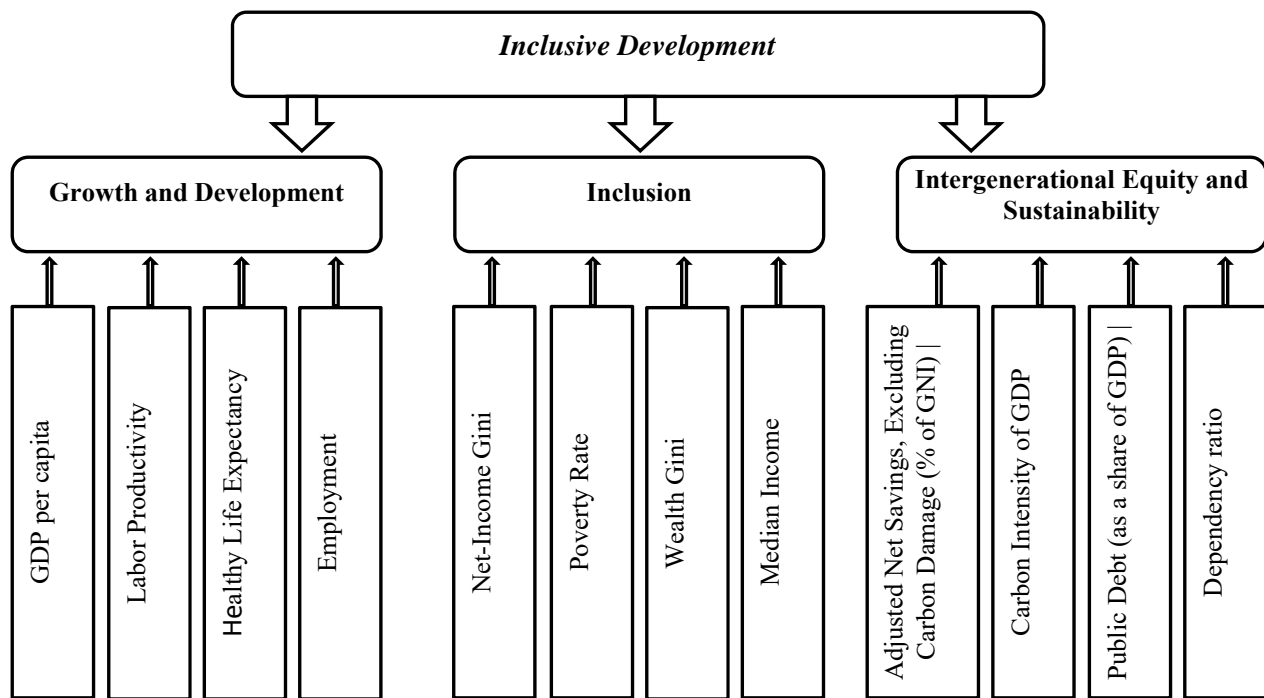


Figure 1. System of the main macroindicators assessing the level of inclusive development
Source: composed by the authors according [6]

It should be outlined that the system of state statistical observations in Ukraine is built on a sectoral basis, and the accounting is carried out according to a certain type of economic activity.

If any of the indicators is lacking in the national system of regional or sectoral statistics, or if it does not fully correspond to the content, used by international statistical institutions, then in the substantiation of the methodology for calculating the inclusive development level indicators, we are based on the principle of maximum statistical significance, according to available statistics in the State Statistics Service of Ukraine and its regional divisions.

We consider stimulators to be those macroindicators whose positive tendency to change indicates an increase in inclusive development. All other indicators are destimulators.

After calculating 12 indicators, the integral index of inclusive development is determined in four stages.

The first stage is the calculation of trend values in regions.

For the *GDP per capita* and *Labor Productivity* indicators, the trend of change over time is calculated as the average growth rate over the period studied (1):

$$\Delta = \left(\sqrt[t]{\frac{I_t}{I_0}} - 1 \right) \cdot 100\%, \quad (1)$$

where Δ is the average annual growth rate, %; I_0, I_t are values of indicators in the basic and reporting periods, respectively; t is the number of periods studied (years, in our research).

For all other indicators, the tendency of their change over time is assessed by the value of absolute growth (2):

$$\Delta = I_t - I_0. \quad (2)$$

The second stage is the scaling of trend values in regions.

As the incremental values obtained have different dimensions and patterns of influence on inclusive development, scaling is necessary to integrate them into the synthetic index.

The authors of the Inclusive Development Index calculation method use a 7-point scale, when the minimum value of “1” shows the worst state and the maximum value of “7” indicates the best [8].

If the indicator is a stimulator, then its scaling is carried out according to formula (3), otherwise it is done according to formula (4):

$$Scale_{i,k} = 6 \cdot \frac{\Delta_i^k - \min(\Delta_i^k)}{\max(\Delta_i^k) - \min(\Delta_i^k)} + 1, \quad i = 1, \dots, n, \quad (3)$$

where $Scale_{i,k}$ is the scaled value of the k indicator in the i region, points; Δ_i^k is the tendency of change of the k development indicator in the i region over time, calculated by the formula (1) or (2); max, min are respectively maximum and minimum trend values of the k development indicator in the i region over the period studied among all researched regions in Ukraine; n is a number of researched regions, units;

$$Scale_{i,k} = -6 \cdot \frac{\Delta_i^k - \min(\Delta_i^k)}{\max(\Delta_i^k) - \min(\Delta_i^k)} + 7, \quad i = 1, \dots, n. \quad (4)$$

We should mention that formulas (3) and (4) can be calculated on a scale of any dimension, but this study uses the original scale of the World Economic Forum.

The third stage is the calculation of inclusive development subindices in regions.

For each of the three indicators groups, the arithmetic mean of the subindex is calculated based on the scaled trend values [8] according to the formula (5):

$$SubInc_{i,l} = \frac{\sum_{k=1}^{PilN_l} Scale_{i,k}^l}{PilN_l}, \quad i = 1, \dots, n, \quad (5)$$

where $SubInc_{i,l}$ is the value of the l subindex of inclusive development in the i region, $l = 1, \dots, 3$ points; $Scale_{i,k}$ is the scale value of the k indicator in the i region, which is part of the l group of indicators, points; $PilN_l$ is a number of indicators included in the l group of indicators (in our research, always $PilN_l = 4$), units.

All indicators included in a particular subindex of inclusive development have the same statistical weight.

The fourth stage is the calculation of integral indices of inclusive development in regions.

The integral index of inclusive development IDI_i is calculated [6] as the arithmetic mean of subindices for each region over the period studied (6):

$$IDI_i = \frac{\sum_{l=1}^{SubN} SubInc_{i,l}}{SubN}, \quad i = 1, \dots, n, \quad (6)$$

where $SubN$ is the number of indicator groups by which the subindices of inclusive development (in our research, $SubN = 3$) are calculated units.

All subindices that are included in the integral index of inclusive development have the same statistical weight.

Considering that since 2014 there have been temporarily occupied territories and a zone of conducting anti-terrorist operation in Ukraine, statistical information for Donetsk and Luhansk regions is incomplete and often irrelevant, and for the Autonomous Republic of Crimea it is absent at all.

Therefore, to ensure comparability of data over time and to increase the statistical significance of the results obtained, we did not take into account the Autonomous Republic of Crimea, Donetsk and Lugansk regions.

Average Ukrainian values for the whole period studied are also calculated without taking into account the above mentioned regions.

The calculations for the Kyiv region are made taking into account the city of republican significance, Kyiv.

Therefore, the total number of analyzed regions (n) is 22. The period studied is 2010–2017.

Its limits are set regarding actually stable methodological base of the statistical records of the State Statistics Service of Ukraine, as well as the lack of certain information in the system of national and regional accounts for 2018 while this analysis was ongoing.

The values of integral indices of inclusive development are calculated in regions for the five-year period (2013–2017) and annual (based on annual increases).

The weighted average values of the subindices $\overline{SubInc_{i,l}}$ and the integral index of inclusive development of the Ukrainian economy $\overline{IDI_i}$ are calculated by formulas (7) and (8):

$$\overline{SubInc_{i,l}} = \frac{SubInc_{i,l} \cdot S_i}{\sum_{i=1}^n S_i}, i = 1, \dots, n, \quad (7)$$

where $\overline{SubInc_{i,l}}$ is the weighted average of the l subindex of inclusive development in the i region, $l = 1, \dots, 3$, points; $SubInc_{i,l}$ is the value of the l subindex of inclusive development in the i region, calculated by the formula (5), $l = 1, \dots, 3$, points; S_i is the area of the territory of the i region, km²;

$$\overline{IDI_i} = \frac{IDI_i \cdot S_i}{\sum_{i=1}^n S_i}, i = 1, \dots, n, \quad (8)$$

where $\overline{IDI_i}$ is the weighted average of the integral index of inclusive development in the i region, points; IDI_i is the value of the integral index of inclusive development in the i region, calculated by the formula (6), points.

The statistical weight for the relevant parameters of inclusive development is the total area of the administrative units.

The source of information is the official data of the State Service of Ukraine for Geodesy, Cartography and Cadastre on 1 January of the respective year.

The choice of an area as a statistical weight is based on its stability over time (the total area of the Ukrainian regions has not changed during the period studied).

Thus, Odesa (6.36%), Dnipropetrovsk (6.10%) and Chernihiv (6.10%) regions received the highest statistical weight, while Chernivtsi (1.55%), Zakarpattya (2.44%) and Ternopil (2.64%) regions received the least statistical weight.

The range (rank) of the Ukrainian regions is determined by a simple ranking on a scale from “1” to “22”, when the lowest rank value corresponds to the best condition and the highest to the worst.

4. Results and Discussions

We should mention that we are assessing inclusive development while the economy of Ukraine and its regions is characterized by volatility in the short term, and since 2014, by a significant decline.

Thus, in 2013–2017, the average annual rate of decline in gross regional product per capita was 0.4% (Table 1.).

Table 1. Dynamics of social well-being in PPP (constant 2010 international \$ and productivity of social work in Ukraine in PPP (constant 2011 international \$)

Note. The average value for Ukraine is calculated by the regions listed in the table (excluding Autonomous Republic of Crimea, Donetsk and Luhansk regions).

Source: Composed by the authors.

Region	Gross regional product per capita, \$					Labor productivity, \$ per capita				
	2013 p.	2014 p.	2015 p.	2016 p.	2017 p.	2013 p.	2014 p.	2015 p.	2016 p.	2017 p.
Ukraine, on average	3344	3334	3101	3186	3294	1936	1758	1179	1041	884
Vinnitsya	2188	2307	2272	2426	2489	1305	1257	870	808	692
Volyn	1944	1965	1852	1786	2131	1175	1114	782	669	681
Dnipropetrovsk	4546	4550	4017	3924	4142	2537	2267	1426	1226	1082
Zhytomyr	1990	2004	1871	2005	2121	1181	1095	744	675	578
Zakarpattya	1672	1623	1401	1339	1458	1004	875	547	458	416
Zaporizhya	2995	3153	3085	3109	3211	1680	1613	1172	1015	869
Ivano-Frankivsk	2357	2305	2022	1937	1975	1498	1299	805	660	548
Kyiv (inc. Kyiv city)	8171	8031	7319	7700	7810	4462	3949	2597	2341	1958
Kirovohrad	2505	2474	2399	2471	2353	1481	1390	974	876	675
Lviv	2447	2432	2276	2359	2482	1456	1328	891	784	673
Mykolayiv	2684	2570	2530	2607	2582	1522	1335	929	830	680
Odesa	2857	2647	2541	2611	2673	1665	1404	962	856	727
Poltava	3921	4067	4047	4224	4530	2291	2190	1610	1457	1259
Rivne	1864	2096	1850	1768	1792	1129	1141	709	595	509
Sumy	2307	2281	2265	2173	2192	1318	1194	866	692	563
Ternopil	1650	1712	1522	1522	1646	1037	985	643	545	490
Kharkiv	3054	2990	2792	2975	2963	1689	1491	994	895	721
Kherson	1895	1839	1843	1904	1941	1098	977	708	628	519
Khmelnytskyi	1978	2088	1930	1972	2128	1170	1165	805	685	594
Cherkasy	2567	2593	2484	2500	2545	1495	1387	952	821	677
Chernivtsi	1487	1401	1240	1216	1343	892	768	494	404	362
Chernihiv	2218	2246	2145	2172	2353	1300	1211	838	730	638

Over the five-year period studied, the population's overall well-being growth was in Vinnytsya, Volyn, Zhytomyr, Zaporizhzhya, Lviv, Poltava, Kherson, Khmelnytskyi and Chernihiv regions, but in only two regions did it exceed 3%.

The decrease in the gross regional product in terms of rates outstripped the growth of unemployment, which resulted in a significant decrease in the level

of social work productivity in all regions of Ukraine without exception (the average annual rate of decline in 2013-2017 was 17.8%).

The calculations of the integral index of inclusive development showed that in 2013-2017, its highest values were observed in Vinnytsya, Chernihiv and Poltava regions, and the lowest ones were in Kyiv, Zakarpattia, and Ivano-Frankivsk (Table 2.).

Table 2. Assessment of regional economy inclusive development in Ukraine, 2013-2017

Source: calculated by the authors.

Region	Integral Index of Inclusive Development		Subindex "Growth and Development"		Subindex "Inclusion"		Subindex "Intergenerational Equity and Sustainability"	
	Індекс	Ранг	Індекс	Ранг	Індекс	Ранг	Індекс	Ранг
Vinnytsya	5.8398	1	5.5673	2	6.2596	5	5.6923	1
Volyn	5.3445	6	4.4669	9	6.0011	11	5.5655	2
Dnipropetrovsk	4.6284	15	3.7792	14	5.5968	14	4.5094	12
Zhytomyr	5.3821	4	5.2438	3	5.5805	15	5.3221	4
Zakarpattia	4.1158	21	2.9770	22	6.0462	9	3.3242	21
Zaporizhzhya	4.6574	13	4.0561	13	5.3106	17	4.6054	10
Ivano-Frankivsk	4.1499	20	3.3669	21	6.2822	3	2.8006	22
Kyiv (inc. Kyiv city)	3.3446	22	3.7037	16	1.8693	22	4.4608	14
Kirovohrad	4.5947	17	3.7726	15	5.7865	12	4.2249	17
Lviv	5.2259	7	4.2633	10	6.1519	7	5.2625	6
Mykolayiv	4.8058	12	4.7438	6	5.2228	19	4.4507	15
Odesa	4.6317	14	4.0727	12	5.6504	13	4.1719	18
Poltava	5.5079	3	5.8018	1	5.2158	20	5.5061	3
Rivne	4.3022	19	3.6882	17	4.7956	21	4.4227	16
Sumy	4.9023	9	4.7337	7	6.0349	10	3.9384	19
Ternopil	4.8413	11	3.6186	19	6.4445	1	4.4609	13
Kharkiv	4.6146	16	3.5826	20	5.2630	18	4.9983	9
Kherson	5.1742	8	4.8441	5	6.1301	8	4.5484	11
Khmelnytskyi	5.3745	5	4.5943	8	6.2618	4	5.2674	5
Cherkasy	4.8440	10	4.1399	11	5.3926	16	4.9995	8
Chernivtsi	4.4084	18	3.6493	18	6.2468	6	3.3291	20
Chernihiv	5.5548	2	4.9851	4	6.4369	2	5.2426	7

In terms of "Growth and Development" subindex, the economies of Poltava, Vinnytsya and Zhytomyr regions are better in the period studied, and the worst ones are Zakarpattia and Ivano-Frankivsk.

The low rates of economic development in these regions were somewhat offset by the formation of an inclusive system.

At the same time, inclusiveness in Kyiv, Poltava and Rivne regions is too low.

According to the criterion "Intergenerational Equity and Sustainability", the leaders are Vinnytsya, Volyn and Poltava region, and outsiders are Transcarpathia and Carpathian region.

We believe that such regional distribution corresponds to the deployment and modern development of productive forces, taking into account the strengthening of its asymmetry in 2014-2017.

Convergence processes in the Western regions, especially in the border areas, contribute to the highest growth rates of population employment and poverty decrease.

The displacement of the population and the features of its natural reproduction have caused high levels of demographic burden in the Kirovohrad and Chernihiv regions for many years.

Similarly, to some extent, the artificial creation of a more favorable investment climate in Vinnytsya region, the shift of investment activity to Western Ukraine in 2014-2017 caused the dynamics of the adjusted net savings in the GRP.

The slowdown in industrial production and regional development, especially in Dnipropetrovsk, Volyn and Kirovohrad regions, was reflected in an increase in inequality in the distribution of income and wealth among the population (by Gini indices).

The systemic crisis of inclusive growth in Ukraine is also indicated by A. Bazilyuk and O. Zhulyn [9].

According to their estimates, the macroindex of inclusive growth decreased by 23.6% in 2009-2014.

This was largely due to a 35.0% increase in poverty and a 2.5% increase in unemployment.

As a result, the economy of Ukraine already in 2014 received about 45.0% of the GDP, and the

dynamics of the gross domestic product since then does not show the real socio-economic status and development of the country.

For a generalized assessment of inclusive economic development, the weighted average values of subindices and inclusive development indices were calculated using formulas (7) and (8).

According to the data in Fig. 2., in 2012–2015 the inclusiveness of the national economy increased.

At the same time, its increase in 2015 is mainly explained by the investment lag and the effect of previous transformation processes.

Meanwhile, the decline had already begun in 2016, which had turned into a recession in 2017.

The negative trend is the significant decrease in the weighted subindex “Intergenerational Equity and Sustainability”, which by its value in 2017 was 23.2% lower than in 2011 (Fig. 3.).

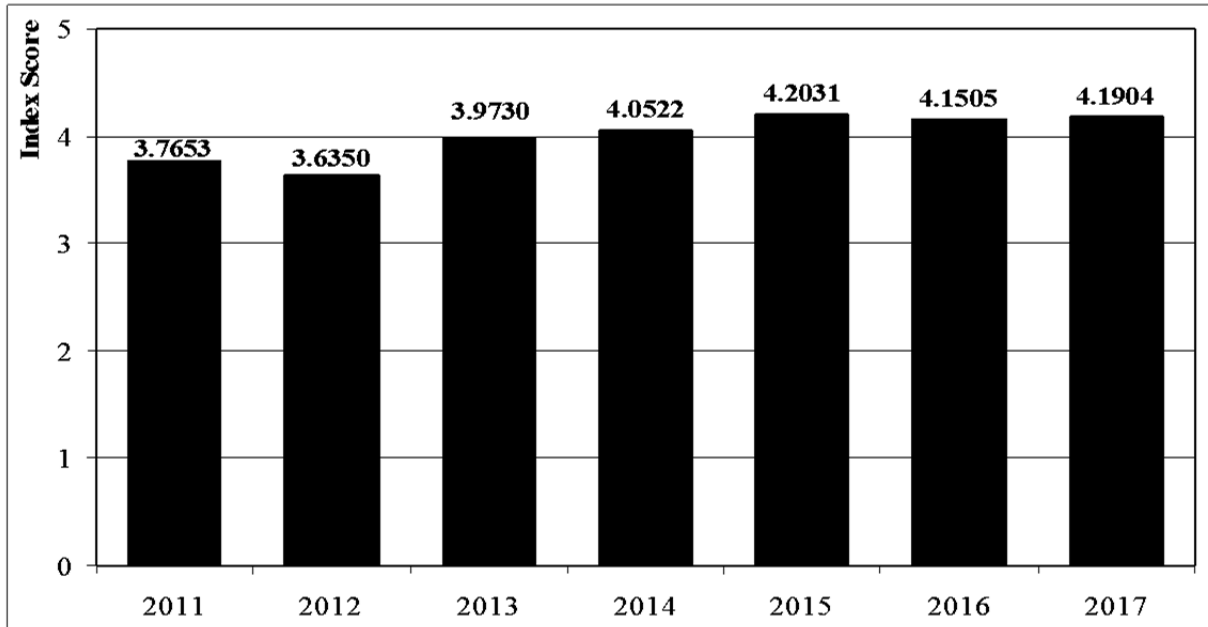


Figure 2. Weighted average values of the integral index of inclusive development of Ukraine
Source: calculated by the authors

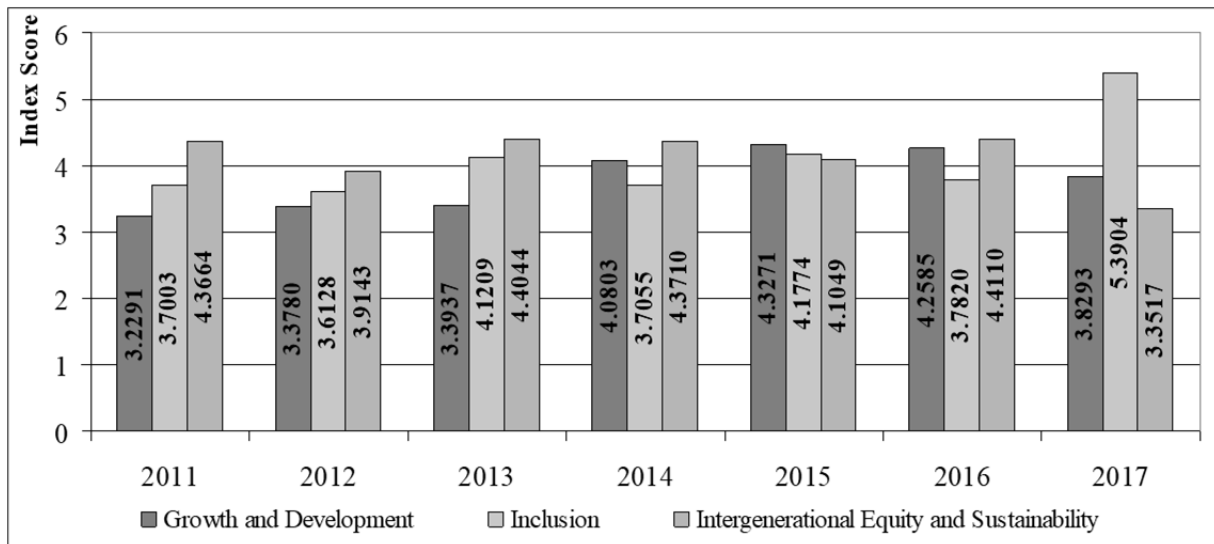


Figure 3. Weighted average values of the subindices of inclusive development of Ukraine
Source: calculated by the authors

Regarding that it has taken place on the background of the general slowdown in economic development in Ukraine and the increasing debt burden on the population, further reforms aimed at developing inclusiveness have a very limited institutional and economic bases.

Increasing inclusiveness in Ukraine is due to the development of inclusive education, which is accompanied by the creation of inclusive resource centers and the introduction of inclusive classes.

Thus, according to the Ministry of Education and Science of Ukraine, in 2016–2017 inclusive classes with a total number of 2278 units appeared in 1081 schools. Today, the largest number of such educational institutions is in Kharkiv and Kyiv regions, the smallest one is in Cherkasy and Volyn regions.

At the same time, the vast majority (about 80%) of inclusive educational institutions are located in cities, which significantly restricts access to them for children with special educational needs from rural areas.

Summarizing the analysis, it should be outlined that structural deformations of the national economy, disproportions of sectoral development and lack of state strategies for inclusive development cause negative phenomena in the regional economy, which results in the standard of living deterioration, the environmental conditions, which consequently reduces the economic growth in perspective.

5. Conclusions

The strategic challenges of today have risen the problem of socio-ecological and economic reorientation the of national development model, caused the transition to systemic neo-industrialization.

Economic development is not a natural phenomenon. It is a goal-oriented, coordinated public policy and it is controlled by civil society.

The appropriate growth model is needed to ensure the development of the national economy in the medium and long term.

The experience of developed countries convincingly shows that nowadays the most progressive one is the model of inclusive development, which covers all socio-economic processes without exception, takes into account the priority of the environment protection and provides equal rights for a decent life and self-realization of all society members.

For assessing the state of the regional economy inclusive development, we adapted the methodology for calculating the integral index of inclusive development, worked out by experts of the World Economic Forum.

The integral index calculations of inclusive development showed that in 2013–2017 the inclusiveness of the national economy increased.

However, the economy of the Ukrainian regions is now functioning and evolving on principles that are far from fully consistent with the methodology of sustainability and inclusiveness.

We believe, that the further economic development of Ukraine must be based on the principles of inclusiveness, but it must make the appropriate civilizational choice, transform the institutional environment, reorient the national economy from an export-commodity model to a neo-industrial knowledge economy, where free, creative people avoiding deprivation, civil society, nature and information will take center stage.

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