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**ECONOMIC INSECURITY TRANSFORMATION IN CONDITIONS OF  
STRUCTURAL MODERNIZATION OF THE UKRAINIAN ECONOMY**

**Abstract.** The article is devoted to the analysis of economic insecurity transformation in the economy. The essence and characteristics of economic insecurity at state and regional levels are considered. The difference and interrelations of terms “danger” and “threats” for economic security are analysed. Internal and external economic insecurity threats are classified; the level of their influence on the state economic security is noted. The stages of economic security, their aims as well as elements of economic insecurity are discussed. The legislative base, which describes Ukrainian economic insecurity is studied. The methods of accessing economic insecurity, their advantages and disadvantages are considered. Methodological recommendations for determining the level of economic security of Ukraine as one of the main components of the national security of the state, based on a complex analysis of indicators of economic security and counting the integral indicator of economic security level are given. Shadow economy as one of the essential components of Ukrainian economic insecurity is determined. Economic insecurity of the regions is characterized. The role of sustainable development of regions as a guarantee of transformation from insecurity to a national economic security model is studied.

**Jel Classification System:** A 10, F52, O 10, P 41, Q 01, R 10, R 58

**Key words:** economic insecurity, factors of insecurity, national security, analysis, shadow economy, sustainable development of regions, national economy.

**Introduction.** In the changing conditions of a modern economy, the ability to ensure the country's security from the impact of internal and external threats determines its level of competitiveness and the socio-economic development dynamics. Therefore, today, economic security is considered mainly from the standpoint of the national economy, while the regional component is not studied sufficiently. If we consider from the point of view of economic security any problem in Ukraine, such as employment, de-industrialization or the distribution of the budget, we also see clearly defined regional features of their manifestation. Trends in the development of the economic situation in Ukraine are the following – regional and sectoral economic risks can be increased.

On the other hand, quite a lot of work devoted to the studying of economic security without paying due attention to its opposition to economic danger. The confirmation of this idea is also found in the work of Ukrainian economists, which state that over recent years considerable attention has been paid to such conceptual categories as stability, balance and security. These categories reflect the level of efficiency of economic development as a single system and provide a comprehensive assessment, are criteria for assessing the socio-economic development of the region. Economic security should be regarded as the most important characteristic of the economic system, as the constructive building of the sustainable economy. It determines the sustainability of economic actors, the possibility of realizing national-state interests, decent living conditions of the population, elimination of threats that arise in the process of their achievement.

Ensuring economic security is one of the most important functions of the state. It is a derivative of economic growth goals at every stage of social development. At the region level, economic security determines the degree of development of the regional economy; its integration with the country's economy shows the regional independence level. Like most scholars, the author considers economic security in relation to threats. Stetsenko S. notes, for example, that the essence of the economic security of the region lies in the ability and capacity of its economy to improve step by step the quality of life of

the population at the level of generally accepted standards, provide socio-economic and socio-political stability of the region<sup>17</sup>.

As to the researches on the content of concepts "threat" and "danger", the analysis of scientific literature leads to the conclusion that there is no clear definition of these terms. "Danger" and "Threat" are identified by some scientists, some of them define danger as a form of threat, and by "threat" others mean the stage or form of danger. A number of researchers emphasize the consequences of threat and danger, defining them as the effect of factors, phenomena, events that cause an unwanted state of the enterprise, loss, damage, etc<sup>18</sup>.

The Academic Explanatory Dictionary of the Ukrainian Language gives an interpretation according to which the concepts under investigation are synonymous<sup>19</sup>:

- threat - the possibility or inevitability of occurrence of something dangerous, pitiful, difficult for someone, something; something that can cause any evil, some kind of trouble;
- danger - the possibility of any disaster, misfortune, any kind of disaster, damage, etc.; a state where someone threatens something for some reason.

In scientific work of Ukrainian economists, other comparisons of these terms are also proposed. For example, Semenyutina T. considering the relationship of risk, danger, and threat, indicates that danger and threat should be considered risk factors and should not be identified with it in any case<sup>20</sup>.

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<sup>17</sup> Stetsenko S. (2016): Theoretical aspects of the study of economic security of the regions on the basis of socio-economic monitoring. Investments: Practice and experience.

<sup>18</sup> Sukhanova N. (2011): Risks, threats and dangers in the management of enterprises in crisis conditions: common and differences. Effective economy. Available at: <http://www.economy.nayka.com.ua/?op=1&z=2544>

<sup>19</sup> Academic Explanatory Dictionary of the Ukrainian Language. Electronic resource. – Available at: <http://sum.in.ua>

<sup>20</sup> Semenyutina T. (2012): Economic risks, hazards, threats: the essence and interconnection. Economic space.

According to Sukhanova N., threat is the causes, phenomena, events, conditions that can prevent the achievable goals and objectives of economic entities. Danger is a concrete form of manifestation of threat, whose destructive influence is completely understood and uncontroversial<sup>21</sup>.

Rach V. distinguishes danger/risk/ crisis as the basic triad<sup>22</sup>. Just as a triad is a minimal construction, which is a minimal model of the display of the whole. According to his ideas, the risk is rational, the danger is intuitional, and the crisis is emotional. This model represents a description of an uncomfortable situation. The only personality is able to determine the degree of non-comfort. At the same time, it acts as the integration of such qualities as rationality/emotionality/ intuition. Why is there such a match of the categories for personality traits? Let us consider the "danger" category. As shown in the works, this category should be viewed as an integral part of the archetype definition of danger/uncertainty/ security, as the meaningful subjective perception of insufficiency/sufficiency of methods and means of own continuous activity in organized artificial or natural integrity<sup>23</sup>. That is, we experience a dangerous situation at the level of perception, that is, intuitively. It gives an opportunity to feel the crisis situation emotionally. And only then, with logical analysis, that is, rationally, we calculate the risk indicators, which, in comparison with the corresponding scales, give us a confirmation or not of a perceived situation as a dangerous appropriate level of crisis.

There is no consensus on the comparability of threats, risks, and dangers, and there is no unity of scientific interpretation of danger.

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<sup>21</sup> Sukhanova N. (2011): Risks, threats and dangers in the management of enterprises in crisis conditions: common features and differences. Effective economy. Available at: <http://www.economy.nayka.com.ua/?op=1&z=2544>

<sup>22</sup> Rach V. (2013): "Danger / risk / crisis" as the triad essence of development processes in the modern economy. Project management and production development. Available at: <http://www.pmdp.org.ua/images/Journal/45/22.pdf>

<sup>23</sup> Rossoshanskaya O. (2011): Safety and security as characteristics of a comfortable state of the whole [Text]. Bulletin of Volodymyr Dahl East-Ukrainian National University. - Lugansk: View of the SNU; Rossoshanskaya O. (2012): Continuity of activity as the main criterion for assessing economic security [Text]. Economic security of the state and scientific and technological aspects of its provision: Proceedings of the IV international scientific and practical seminar.

Yermoshenko M. considers danger as an objectively existing possibility of negative influence on a certain phenomenon, system, mechanism, social organism, as a result of which it can be caused by harm, which will lead to decline, crisis state, etc<sup>24</sup>.

Oleynikov E. notes that danger is a well-understood, but not a fatal probability of causing harm, due to the presence of objective or subjective factors.

Manilov V. describes danger as causing damage to important national interests and national security on a limited (local) scale<sup>25</sup>.

Pogosova M. views danger as an existing or potential possibility of a threat, the impact of which may cause damage to any subject or object<sup>26</sup>.

In the textbook on national security of Ukraine, the national danger is discussed as the practical actions of one state or their groups, legal persons in terms of harming the national interests of another country, that is, the process of direct practical harm to the national interests of the state<sup>27</sup>.

In economic literature there are a lot of classifications of economic insecurity factors. In our opinion, it makes sense to analyse them from an internal and external point of view. We agree with scientists who understand internal threats as those which are usually caused by the inability of the economy to self-preservation and self-development, the weakness of innovation in the development, ineffectiveness of the state regulation of the economy, and external economic insecurity threats reflect the current state of the world economy, and their source is the conflict of national economic interests of different countries in connection with the implementation own scientific and technical and financial and economic potential.

Internal economic insecurity threats are:

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<sup>24</sup> Yermoshenko M. (2001): Financial Security of the State: National Interests, Real Threats, Security Strategy.

<sup>25</sup> Manilov V. (1995): Research on national security problems: questions of methodology. Military thought.

<sup>26</sup> Pogosova M. (2008): Structural-logical analysis of the concept "Financial safety of the enterprise". Science and economics.

<sup>27</sup> Nizhnik N. (2000): National Security of Ukraine (methodological aspects, state and development trends): curriculum. Manual. Belous. - Irpen.

- the low technological level of most industries, high production costs, low quality of products and, consequently, low competitiveness of the national economy;
- loss of a significant part of scientific and technical potential, positions on important areas of scientific and technological progress;
- deformed production structure;
- destruction of the reproduction system of production potential;
- energy crisis;
- the inefficiency of public administration in socio-economic processes;
- the imperfection of national legislation;
- the growth of the shadow economy;
- high level of monopolization of the economy, strengthening of raw material orientation;
- low investment activity and investment of capital mainly in an intermediary and financial activity at the expense of production;
- reduction of production sphere;
- low solvent consumer demand of the population;
- strengthening the property stratification of the population;
- criminalization of the economy, the growth of corruption and organized crime, its penetration into the basic branches of the Ukrainian economy as a result of weakening the system of state control;
- the weakness of the institutions of power, which in combination with the imperfect legislative framework leads to low legal, financial, contractual discipline, mass concealment of income and tax evasion;
- lack of adequate legislation and judicial system, delay and lag in the creation of the most important institutions of a market economy.

At the same time, external economic insecurity threats are represented

by:

- import dependence of Ukraine on many types of products, including
- strategic goods, energy carriers, component parts for mechanical engineering, foodstuffs;
- irrational structure of export;

- problems of the financial, organizational and information infrastructure supporting the competitiveness of Ukrainian exports;
- uncontrolled departure abroad of intellectual and labour resources;
- insufficient export and currency control and imperfection of customs policy;
- poor development of the transport infrastructure of foreign economic relations, etc.

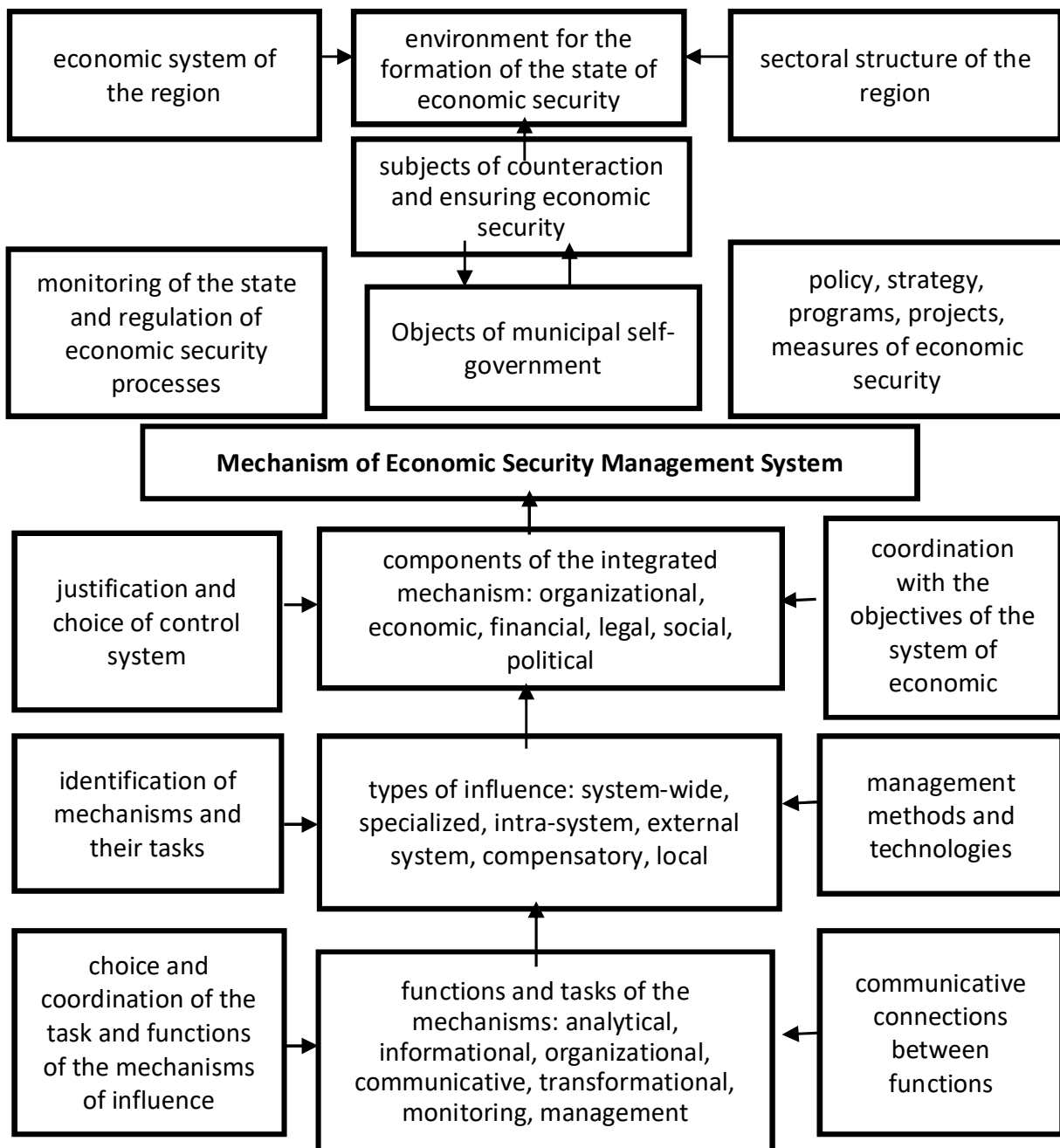
The influence level of internal and external threats on the state economic security is constantly changing because of the dynamic conditions of the functioning of society, the national economy and the world economic system as a whole.

For preventing economic insecurity, starting from the beginning of the XX century several solutions were introduced that would contribute to economic security. Therefore, it is important to consider the main stages of the country and world economic security:

- first, we need to remind the Law of Ukraine "On National Security" and the creation of the Federal Committee on Economic Security with the aim to preserve the economic independence of the country and raise the quality of life of the population by ensuring the economic security of citizens and the state as a whole;
- next stage - the creation of international associations for providing the international economic security of the developed countries of the world.
- The aim is strengthening the security of the global economy and individual states by preventing the energy crisis;
- acceptance of the Strategies of the economic method of national security by the countries of Western Europe. The aim is development of a set of measures to ensure sustainable development of the economy by creating a mechanism for countering the security of internal and external threats to European countries;
- declaration of Principles of International Economic Security of the United Nations because of the need to ensure an integrated approach to solving a lot of interconnected international problems;

- changing in the course of the countries of the former Soviet Union on the formation of a market economy system for the democratization of society, overcoming social tension, ensuring political changes, the emergence of a market economy, improving the living standards of the population;

Figure 1. Mechanism of economic security management of the region



Source: compiled by the authors on the basis of the research



- acceptance by the countries of the former Soviet Union of state normative- legal acts on ensuring the national economic security questions for the formation of a mechanism for ensuring the vital interests of the individual, society and the state from internal and external threats;
- developing the market economy system by former Soviet Union countries for the democratization of society, overcoming social tension, ensuring political changes, the emergence of a market economy, improving the living standards of the population.

Moreover, Ukrainian economic insecurity is described in the Law of Ukraine "On the Fundamentals of National Security of Ukraine" and its characteristic features are<sup>28</sup>:

- Significant reduction of GDP, the decrease of investment and innovation activity and scientific and technical and technological potential, reduction of research in strategically important directions of innovation development.
- The weakening of the system of state regulation and control in the sphere of economy.
- Instability in the legal regulation of relations in the sphere of economy, including the financial policy of the state; lack of an effective program to prevent financial crises; growth of credit risks.
- The critical condition of the main productive assets in the leading industries, agro-industrial complex, life support systems; the aggravation of the problem of maintaining the proper technical condition of nuclear facilities on the territory of Ukraine.
- The insufficient rate of reproductive processes and overcoming structural deformation in the economy.
- The critical dependence of the national economy on the situation of foreign markets, low rates of expansion of the domestic market.

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<sup>28</sup> Law of Ukraine "On the Fundamentals of National Security of Ukraine" (2003). Available at: <http://zakon4.rada.gov.ua/laws/show/964-15>.

- An irrational export structure with predominantly raw material nature and a low proportion of high value-added products.
- Great debt dependence of the state, critical volumes of state external and internal debts.
- The growth of the share of foreign capital in strategic sectors of the economy is dangerous for Ukraine's economic independence.
- The ineffectiveness of antimonopoly policies and mechanisms of state regulation of natural monopolies, which complicates the creation of a competitive environment in the economy.
- The critical state with food provision of the population.
- The inefficiency of fuel and energy resources usage, insufficient rates of its supply and lack of active energy conservation policies that threaten the energy security of the state.
- A large share of the shadow economy.
- The prevalence of the personal, corporate, and regional interests over the national ones in the management structures.

At the same time in the National Security Strategy of Ukraine the following threats to the national security of Ukraine in the economic sphere are registered, which need to be discussed <sup>29</sup>:

- the dependence of the domestic market on the foreign economic situation, insufficient efficiency of work on its protection against unfair competition from Ukrainian monopolists and importers;
- low efficiency of the material resources usage, the prevalence in the structure of industry sectors with a small share of value added, low technological level of the domestic economy;
- existing currency risks, inefficient State and local budgets funds usage;
- the imperfection of legislation to increase the development of the national economy on an innovative basis, the relatively high level of

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<sup>29</sup> The Strategy of National Security of Ukraine "Ukraine in a Changing World". (2007): Decree of the President of Ukraine dated February 12, No. 105. Available at: <http://zakon4.rada.gov.ua/laws/show/389/2012/paran18#n18>.

economic shadowing, the lack of sufficient incentives to legalize incomes and reduce shadow employment;

- an excessive influence of foreign capital on the development of certain strategically important sectors of the national economy, a growth of the share of foreign capital in such industries is dangerous for Ukraine's economic independence.

The analysis of scientific work of Ukrainian and foreign scientists showed that there is no single common interpretation of insecurity, danger, and threat, it should be emphasized that these terms, first of all, are used in relation to the economy. For further description of the material, let us note that we understand that danger as a real manifestation of threats that arise while exceeding the critical level of threats, is accompanied by certain losses and has devastating consequences. Here the following problem field is outlined. Which level is a critical one? Talking about existing assessing methods, a SWOT analysis is the most widespread. The first time, when the analysis was represented visually in the form of a SWOT matrix, was at the Harvard conference. Initially, a SWOT analysis was based on structured knowledge about the current situation and trends, later – in the broader sense – for constructing strategies. Today a SWOT analysis is used at all levels of macro, meso, and microeconomics. In addition, this method is considered not only a basis for the development of strategies but also a method of crisis management. A SWOT analysis is the process of establishing links between the most characteristic features, threats, strengths (advantages), weaknesses, the results of which can later be used to formulate and select strategies. This is a kind of tool: it does not contain final information for making managerial decisions, but it allows you to streamline the process of considering all available information using your own opinions and ratings. It enables us to formulate a general list of strategies considering their features - adaptation to the environment or influence on it. The widespread application and development of a SWOT analysis are due to the fact that strategic management involves large volumes of information that needs to be collected,

processed, analysed, used, and hence there is a need to search, develop and apply methods for organizing such work<sup>30</sup>.

The SWOT analysis algorithm consists of the following main steps: formation of expert groups, filling the matrix SWOT, expert evaluation, summarizing the results, analysis of the results. The successful application of the methodology helps to structure existing information, take a fresh look at the current situation and not only evaluate opportunities, reveal threats, but also try to take into account the information received in the future development strategies of the territories.

The main advantages of a SWOT analysis include the following:

- systematization of knowledge about internal and external factors
- influencing the process of strategic management,
- definition of competitive advantages and formation of strategic priorities,
- periodic diagnostics of the market sector and resources of the territories, diagnosing both the whole territory and its separate regions.

The most important disadvantages of this method of strategic analysis can be summarized as follows:

- subjectivity in establishing the nomenclature of strategic factors of the internal and external environments, as well as in determining their significance for the territories,
- constant lagging of the information on the analysed environment from the present time,
- the unresolved issue of ensuring the establishment of a single correct management decision and orientation only to establish a general direction of development,
- lack of consideration of the risks that each territory meets every day.

A SWOT analysis is one of the most common types of analysis in strategic management. Its versatility makes it possible to use it for various objects of

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<sup>30</sup> Guido Vonk G., Geertman S., Schot P. A SWOT Analysis of Planning Support Systems. (2007). Available at: <https://journals.sagepub.com/doi/abs/10.1068/a38262>

study: analysis of products, enterprises, competitors, cities, regions, etc. Currently, this method is actively used at the state and regional level for strategy development, as a result, a management decision is made as a social act, in which, in a logical form, the influence of managerial units on the social system that is necessary to achieve the goals, interests, and satisfaction of the relevant management needs. And the most problematic is that the level of threats is not evaluated in the mathematical calculation, that is, the quadrant of the weaknesses – threat, may contain indicators of the pre-crisis level and the crisis level, that is, the state of danger. All components of this quadrant are provided by experts and approved by politicians at the state and regional levels, the territory is deprived of an adequate assessment of its condition, which may lead to unexpected danger; for example, it occurred in certain Donbas areas.

It is believed that if a SWOT analysis is already used at the meso-macro level, then its application should be preceded by PEST and PRESTCOM analyses commonly used in developed countries. The resulting market information is used to find out the chances and threats to the enterprise in the region. A PEST analysis (political, economic, social, technological factors) is to identify and evaluate political, economic, socio-cultural, technological factors.

A PRESTCOM method (regulatory, competition, organizational market factors) covers the analysis of regulatory, competitive, organizational, market factors. It allows you to see the general factors (both in the country and in the international market) that affect the activities of the company, identifies the main trends that need to be addressed when designing the strategy and in the current activity.

Similarly, these methods may be extended to the meso- and macro-levels of the economy. That will allow receiving more relevant SWOT analysis results. As we see, a SWOT analysis, despite its prevalence in the application for strategies developing at the state and regional levels, does not answer the questions about the quantitative measurement of threats and assessment of the danger level. On the other hand, application of the program-target method for the programs and plans development is recommended, within which the

quantity and measure indicators of the program should be established. Nowadays, this method is implemented in the process of budgeting and is not yet common for economic or socio-economic programs development. In our opinion, the program-target method can be used for any territory in order to avoid falling into the danger zone.

At present, the most formalized is the calculation of the level of economic security of Ukraine. Appropriate methodological recommendations were approved by the order of the Ministry of Economic Development and Trade of Ukraine <sup>31</sup>.

These methodological recommendations are designed to determine the level of economic security of Ukraine as one of the main components of the national security of the state and determine the list of key indicators of the state of economic security of Ukraine, their thresholds, as well as the algorithm for calculating the integral index of economic security.

The methodological recommendations are based on a comprehensive analysis of indicators of economic security with the identification of potentially possible threats to economic security in Ukraine and are applied by the Ministry of Economic Development for an integrated assessment of the level of economic security of Ukraine in general in the economy and in certain spheres of activity <sup>32</sup>. The integral index of economic security consists of 9 weighted average sub-indices (components of economic security):

- 1) industrial safety;
- 2) demographic security;
- 3) energy security;
- 4) foreign economic security;
- 5) investment-innovation safety;
- 6) macroeconomic security;
- 7) food security;

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<sup>31</sup> On Approval of Methodological Recommendations for Calculating the Level of Economic Security of Ukraine. (2013). Available at: <https://zakon.rada.gov.ua/rada/show/v1277731-13>

<sup>32</sup> On Approval of Methodological Recommendations for Calculating the Level of Economic Security of Ukraine. (2013). Available at: <https://zakon.rada.gov.ua/rada/show/v1277731-13>

- 8) social security;
- 9) financial security.

The calculation of integral indices in the context of these components of economic security is based on the assessment of more than 130 individual indicators. For each indicator of the components of the state of economic security of Ukraine, the characteristic values that determine the level of economic security are developed. The range of characteristic values of each indicator is measured from 0 to 1 (or from 0 to 100 percent) and is divided into five intervals. They include an indicator which is characterized as a minimum or absolutely dangerous level of economic security and the level of economic security is equal to 0; the indicator value, which is characterized as a critical level of economic security and the level of economic security is equal to 0.2 or 20% of the optimal value; the value of the indicator, which is characterized as a dangerous level of economic security, and the level of economic security is equal to 0.4 or 40% of the optimal value; the value of the indicator, which is characterized as unsatisfactory level of economic security and the level of economic security is equal to 0.6, or 60% of optimal value; the value of the indicator, which is characterized as a satisfactory level of economic security and the level of economic security is equal to 0.8, or 80% of the optimal value; the value of the indicator, which is characterized as the optimum level of economic security, and the level of economic security is equal to 1, that is equal to the optimal value. Unfortunately, although it is stated that the results should be published on the website of the Ministry, it is impossible to find them. Thanks to the response to the official request, we can analyse the indicators of the integral index of economic security of Ukraine as a whole and 9 weighted average components of economic security starting from 2010 (Table 1).

Table 1. The integral indicator of economic security level and by separate components, %

Indicator components	2010	2011	2012	2013	2014	2015	2016
Industrial	50	55	49	48	50	47	56
Demographic	47	56	45	46	45	43	46
Energy	35	32	34	39	47	45	58

Foreign Economic	41	36	29	35	35	37	40
Investment and innovation	35	36	37	35	30	35	30
Macroeconomic	38	48	38	39	33	31	36
Food	90	92	93	86	94	92	92
Social	57	59	64	62	57	55	56
Financial	44	47	46	50	36	35	38
An integral indicator of economic security level	47	50	47	48	45	44	48

Source: compiled on the basis of<sup>33</sup>

As you can see, the integral indicator of the level of economic security is within the third interval, where insecurity is the value of an indicator characterized as a dangerous level of economic security, and the level of economic security equals 0.4 or 40% of the optimal value; the value of an indicator that is characterized as unsatisfactory level of economic security and the level of economic security is equal to 0.6, or 60% of optimal value. All integral indicators are closer to the dangerous level than to the unsatisfactory level of economic security. Similarly, in the third interval, there are production, demographic and social indicators. The energy indicator from 2010 to 2013 was in a dangerous zone, and from 2014 to 2016 it was unsatisfactory, and the financial indicator on the contrary from the unsatisfactory zone went down to the dangerous one. The worst situation is due to investment-innovation and macroeconomic indicators because they do not go beyond the limits of the level of economic security. The highest level of economic security for the food indicator is the only indicator that has reached almost the optimal level of economic security.

As the analysis shows, by most indicators, we are at a dangerous level of economic security, so it is more appropriate in this case to use the term economic danger, which more adequately characterizes the existing state of

<sup>33</sup> On Approval of Methodological Recommendations for Calculating the Level of Economic Security of Ukraine. (2013). Available at: <https://zakon.rada.gov.ua/rada/show/v1277731-13>



affairs. Therefore, we again emphasize the need for a legislative term for economic danger.

However, one of the most important components of Ukrainian economic insecurity is the shadow economy, which hinders the development of both regions and the state as a whole. Enterprises operating under the law lose competitive advantage over those players who derive their income in the shadow. The state supports these conditions in its interests: murky taxes, complex rules of the game, closed deals, political and financial groups. All this increases the risks for all types of business and prevents regions from developing and investors are afraid to invest in enterprises and regions.

Along with all the illnesses of the economy, in recent years Ukraine has encountered problems caused by the conflict in the east of the country. The "hybrid" war, on the one hand, broke up established economic and trade ties with neighboring countries, on the other, it has led huge territories and entire branches of the national economy into shadow. All this has led to an increase in the economic insecurity, even in regions and enterprises that are not directly connected with the war. Inflation, the increase of utility payments, the lack of investment, the outflow of labor, first of all, highly skilled one lead to a decrease in the competitiveness of domestic enterprises.

Ukraine's economy quickly integrated into the system of shadow financial flows, using standard instruments of manipulation of export and import prices, as well as financial instruments. According to the cumulative outflow of shadow capital, today Ukraine is among the twenty "Leader countries". Globalization of the world economy negatively affects the effectiveness of the national economy management levers, destabilizing global economic relations. The spread of shadow employment and the shadowing of financial flows, which are recognized as determinants of the shadowing of world economic relations, increase inequality within and between countries. The scale of the shadowy financial flows from Ukraine suggests the availability

of untapped investment resources for the national economy, which is almost twice the amount of foreign direct investment in Ukraine<sup>34</sup>.

Despite the threatening scale of the problem, there is still no coordinated country-wide plan of action to overcome the shadow economy. Existing program documents or relating to them individual manifestations fight against economic crime, etc., or are aimed at counteracting shadow economic activity on the scale of national economies.

As the problem of shadowing goes beyond the boundaries of one country, the scale of the shadow economy of the global economy and the threats associated with its existence and spread require the development of a coordinated strategy to counteract such a phenomenon.

The main ways of counteracting the shadow economy of the global economy are<sup>35</sup>:

- conducting national audits of the economies of countries in order to assess the magnitude of the types of shadow economic activity and their impact on the formal economy;
- assessment of national regulatory systems for taxation, labor licensing, environment, health and safety, consumer protection, intellectual and industrial property rights in order to identify opportunities for their simplification and reduce compliance costs;
- researches of the impact of migrant labor on national well-being and compliance with corporate standards of work;
- introduction of special assistance for integration for vulnerable groups (in particular, minorities, refugees, forced migrants, etc.);
- increased electronic monitoring and supervision of cash flows of banks and other financial institutions;

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<sup>34</sup> The Global Risks Report 2019. (2019). Available at: <https://www.weforum.org/reports/the-global-risks-report-2019>

<sup>35</sup> Pleskachevskiy V. The underground economy: a threat to democracy, development and the rule of law. Available at: <http://assembly.coe.int/ASP/Doc/DocListingDetailsEasp?DocID=13532>

- introducing more rigid rules for cash transactions and increasing fines for unregistered and unclaimed cash accounts;
- improved interaction, information exchange, exchange of best practices of monitoring among regional, national and international law enforcement agencies;
- increased control over transactions involving offshore jurisdictions;
- improving the rules and regulations governing financial markets, ensuring transparency of financial instruments;
- improvement of normative acts on the lobbying and activity of professional associations, the management of state property, strengthening control over counterfeits, etc.

A consistent, comprehensive and balanced program of legalization of the uncontrolled sphere of the economy in combination with tax policy and protection of the interests of entrepreneurship will resolve a number of problems related to the intensification of investment activity, economic growth, expansion of employment, increase of the level and quality of its life, strengthening the position of the country on the world level.

In addition, we consider it necessary to assess the level of economic security not only in the context of certain spheres of activity but also in terms of regions, as there is a significant difference at the regional level even in those areas of activity that are assessed at the macro level.

At the regional level, we have a very interesting situation, because on the one hand, the state does not propose any method of assessing the level of economic security or danger, and on the other hand for the regional level, on the part of the state, different methods of integrated assessment of the economic development of the regions are proposed.

According to the statements of the Law of Ukraine "On National Security of Ukraine" (Article 3)<sup>36</sup>, the security of regions, administrative-territorial unit, and territorial communities is not an object of national security of Ukraine, and territorial interests are not part of the system of national interests.

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<sup>36</sup>On National Security: Law of Ukraine. (2018): Available at: <https://zakon.rada.gov.ua/laws/show/2469-19>

However, the text uses the term "society", which is not a subject of law and is not defined in normative legal acts. Other entities (except state and citizens) are not assigned to subjects of ensuring national security whether economic entities and participants in economic relations whose interests are not part of the system of national interests (according to Article 1)<sup>37</sup>.

However, the main functions of the subjects of ensuring the national security of Ukraine are not defined in any way by the functions of local governments to ensure the economic security of the region. In contrast, the Law of Ukraine "On Local Self-Government in Ukraine"<sup>38</sup> clearly defines the powers, principles, and functions of local governments, their role in ensuring the interests of the territorial community.

As we see the basic law imposes the opposition of the interests of the state at national and regional levels to the interests of administrative-territorial entities and territorial communities, other economic agents, which directly provide the conditions for life support of a person. The provisions of the Law "On Local Self-Government in Ukraine" show the predominance of personal, corporate and regional interests over the national ones, which is recognized as a threat to national security in the economy.

One of the biggest problems in ensuring economic security in Ukraine is the presence of regional aspects and manifestations. In fact, regions, territories, administrative-territorial entities are not the objects of national security, and therefore, they are not regulated by the subjects of ensuring economic security.

The traditional economic regionalization of development during the economic downturn in 2007-2010 has become a direct "economic danger" for the future of certain regions of Ukraine. In the National Security Strategy, the deepening of regional differentiation is recognized as a threat factor in terms of economic security. Therefore, it was necessary, along with evolution the

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<sup>37</sup>On National Security: Law of Ukraine. (2018): Available at: <https://zakon.rada.gov.ua/laws/show/2469-19>

<sup>38</sup>On Local Self-Government in Ukraine: Law of Ukraine. (1997): No. 280/97-VR of 21.05.1997. Available at: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?reg=280%2F97-%E2%F0>

strategic planning of regional development, actively and urgently turn to the issues of regional economic security.

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The most important element of the organization of the country's economy, which provides sustainable spatial relationships and the integrity of socio-economic development, is the territorial structure. It is the result of the development and placement of productive forces and an important prerequisite for the further development of both the economy as a whole and raising the standard of living of the population, ensuring the national security of the country, as well as an instrument for preserving and improving the environment of human life.

According to Derkach T., at the transformation stage of economic relations in Ukraine, the prevention of the achievement of a "high danger" zone becomes the basis of the state policy in the sphere of economic security<sup>39</sup>. From the standpoint of regional management, the states of "high danger" are following:

- reduction of positive prospects for the economy of regions and territories on the way out of the economic crisis;
- reduction of resource potential and loss of opportunities for adaptation of the economic system to reduction of raw materials and energy resources;

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<sup>39</sup> Derkach T. (2016): Formation of the model of socioeconomic security in the process of integration of the transformation of the economy of the regions. Global and national problems of the economy.

- qualitative degradation and structural crisis of the industrial system as a result of the critical fall of the industrial, technological, scientific and technical, export, payment potential of the state;
- growth of production costs and deployment of inflation processes;
- financial system disruption and mutual non-payment crisis.

The emergence and growing problem of economic security due to both objective and subjective reasons related to market transformation of the economy of Ukraine. The crisis of the reproductive structure of the regions is complex, because it covers all aspects of the functioning of the country's economy: material production, finance, social sphere, problems of regional economic asymmetry and regionalism, foreign economy sphere.

The actuality of the assessment of the economic security of the territories is due to the fact that at present we have significant scientific advances concerning the state and development of the regional economy, within the framework of which a lot of studies are devoted to classification of regions. Although there is some misunderstanding in the scientific community concerning classification, nonetheless, there is a certain consequence in the regions' classification.

The most common is the division into regions – leaders, highly developed, developed and problematic. Problems are distinguished by underdeveloped and depressed ones. At the same time, at the state level, the Law of Ukraine "On the Promotion of the Development of Regions" was legislatively regulated only by the definition of depressed regions and the indicators by which the territory could obtain this status<sup>40</sup>. According to Article 9, a depressive region is a region in which, over the last five years, the average gross regional product per capita is the lowest. Also, we need to emphasize that concerning industrial or rural areas, the thresholds for deviations from the average indicators of development of the respective territories are foreseen. Regarding regions there are no deviations. In this case, only of the most recent one will be depressed from all regions.

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<sup>40</sup> On Stimulation of the Development of Regions: Law of Ukraine. (2012): № 2850-IV. – Available at: <https://zakon.rada.gov.ua/laws/show/2850-15>

We also consider it necessary to introduce extreme deviations from the average indicators in Ukraine, and all regions that are outside the marginal deviations will be considered depressed. We think, it is inappropriate to use only one indicator to determine the status of depression. In our opinion, it is vital to adapt the indicators of assessing the level of economic security of Ukraine to the regional level. This is since each region has a certain specialization and, accordingly, under certain components, the region will be in a safe area, and some will fall into the danger zone of economic security. Accordingly, regional development agreements should focus on reducing the level of economic danger in some particular area of activity that has fallen into a dangerous zone in the region.

We will generalize the reasons for significant differences in the regions defining the tasks of regional policy:

- differences in natural and economic conditions;
- the scale, quality of the natural resources define the "productivity" of the regions;
- economic and geographical location of the region;
- old production structure, which leads to a delay with the introduction of innovations;
- the stage of technological development, which affects certain types of goods production (raw materials, intermediate products, goods of final consumption, etc.);
- political conditions, forms of general and regional policy, degree of regional autonomy;
- physical factors of accommodation (presence or absence of ports, airports, transport systems);
- socio-cultural factors (degree of urbanization, education of the population, etc.).

Unfortunately, generalization of scientific works shows that most regions fall into the problem category, so we consider it incorrect to give the status of depression to the "worst case" region. It is the assessment of the level of economic security at the regional level that will identify the regions where the

situation is worst in all spheres – and then a comprehensive solution is needed, and regions where targeted assistance is needed in a certain area so that this sphere does not become a driver for the transition of the economic situation of the region to the zone of economic danger. Preventive measures are always better than solving existing problems.

According to the Law of Ukraine "On Stimulating the Development of Regions", the promotion of the development of the regions is carried out with the aim of ensuring their sustainable development in the interests of the whole Ukraine, raising the standard of living of the population, overcoming poverty and unemployment, forming the middle class.

The main principles of state incentives for the development of depressed territories include (Article 8):

- objectivity and openness in determining the territories for the state stimulation of their development;
- simultaneous concentration of efforts and funds in a relatively small number of territories in order to achieve maximum socio-economic development;
- inadmissibility of the use of targeted state support to finance the current needs of the territories;
- maximum use of opportunities of the territories themselves in the development and implementation of a system of measures to overcome depression.

According to the legislation for the depressed region, an appropriate program for overcoming the state of depression of the territory is being developed. It is interrelated with the content, timing, possibilities and performers of a set of measures of legal, organizational, economic, financial, social orientation, aimed at overcoming the depression of a particular territory, the provision of which involves the financial and other resources of the state and the region.

And for all other regions - a strategy for regional development. We believe that all these documents have lost one of the main terms, which



significantly affects the content of documents - this is the sustainability of development.

Thus, the law states that one of the goals of stimulating regional development is to ensure sustainable development, but this term does not occur more within the limits of the law. And this is admissible.

Since the strategies of sustainable development of the region should ensure the sustainability of development, the name of the strategy of sustainable regional development is more correct. Especially, if the strategy is developed for a depressed territory. Indeed, from the wording of the program to overcome the depression of the territory, no mention of sustainability, and this is the main driver exit region of the zone of economic danger. The state can provide all possible support to the depressed region and withdraw it from the zone of economic danger, but if the stability of processes is not ensured, the region will again be in the economic danger zone.

Assessing the potential impact of each region on the sustainability of its economy and the country as a whole is of particular importance today. The degree of influence on the sustainability of economic development is realized through a system of quantitative indicators.

Indicators of sustainable development of the region are not unchanged, once and for all established. They will change with the stabilization of the Ukrainian economy, reducing the level of economic danger and conditioned by shifts in the economic situation of society, the priorities of its development. Today these indicators should help the state and regional authorities to influence maximally on the social production processes in order to ensure sustainable economic development. In 2015, the strategy for sustainable development "Ukraine - 2020" was approved, which envisages the implementation of 62 reforms and state development programs within the framework of four movement vectors<sup>41</sup>. The first is the implementation of the national security reform and defense system, however the economic security was not mentioned there as a component of national security, and the fact is

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<sup>41</sup> About the Strategy of Sustainable Development "Ukraine-2020". (2015): Decree of the President of Ukraine. Available at: <https://zakon.rada.gov.ua/laws/show/5/2015>

that Ukraine actually is in a dangerous area of economic security in this indicator since 2010. The implementation of the Strategy involves the achievement of 25 key indicators that assess the implementation of reforms and programs that are either macro indicators or indicators of Ukraine positioning in international rankings. Unfortunately, most indicators are not adapted to the regional level. The Cabinet of Ministers of Ukraine has developed a plan of measures to implement the Strategy of Sustainable Development "Ukraine 2020" in 2015, and this is the only document developed in 4 years.<sup>42</sup> Unfortunately, the plan of measures is very declarative without specific quantitative indicators. As well as all the programs and action plans that were developed earlier, this document has no reporting component: which indicators have been achieved during the implementation of the action plan, or at least which measures are implemented, and which are not. According to the approved strategy, nowadays there is a period of major reforms for Ukraine, the economy is beginning to stabilize, but the processes that are occurring still pose a threat to the safe functioning of the state, its separate regions and society as a whole.

Under these conditions, it is necessary to develop and implement such mechanisms of management that would take into account and coordinate the interests of the state with the interests, goals and objectives of economic sustainable development of the regions. Problems, which are being solved in each region have to be consistent with national tasks, but it is essential to take into account local characteristics. In particular:

- regional economic development mechanism formation;
- reconstruction of a regional industrial system considering the economic capacity of local ecosystems;
- development of complex interregional schemes that cover the territories of some Ukrainian regions.

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<sup>42</sup> Action Plan for the implementation of the Program of Action of the Cabinet of Ministers of Ukraine and the Strategy for Sustainable Development "Ukraine-2020" in 2015. (2015): Resolution of the Cabinet of Ministers of Ukraine. Available at: <https://zakon.rada.gov.ua/laws/show/2469-19>

Program and forecast documents of the national level should be guidelines for the development of regional programs of sustainable economic development and, together with legal acts, determine the safe economic conditions for their implementation. The assessment of the sustainability of the region's economic development is the basis for determining the priority directions of development and taking managerial decisions. It allows discovering the conformity as well as inconsistency of the territory development with the national criteria, identifying the specific features of the regional level, assessing the degree of the national security threat.

The transition to sustainable development of the state as a whole is possible only when sustainable development of all its regions is ensured. This implies the formation of an effective spatial structure of the country's economy while respecting the balance of interests of all regions.

To sum up, we would like to note that there is an urgent need for a comprehensive integrated approach that considers all components of economic insecurity and the development of a long-term regional economic security strategy based on sustainability, aimed at overcoming the long-term crisis and creating preconditions for the country development.