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**INVESTMENT IN HUMAN RESOURCES AS A WAY OF EUROINTEGRATION
FOR UKRAINE**

In this paper on the basis of statistical information it is shown the activity of Ukraine as to the development of human capital in the country, it is grounded, that eurointegration of Ukraine will allow to considerably increase the level of development of human potential/ on the other hand the increase of investments into the human capital in Ukraine will significantly accelerate the integrations process of Ukraine in the European Union.

According to the definition accepted in economic literature, the Human Capital of a country is a capable of working part of population, physically developed, intellectually capable having knowledge and able to produce material values and offer services (it is characterized by the amount, structure, professional preparedness and competence).

For the last decade «human capital» started to be considered as a most important object of investments, due to the fact that among all the resources of any organization this is a human capital that has become a resource comprising the greatest reserves of efficiency increase functioning. Expenditures on human capital are transforming into a more important constituent of investment activity of any firm because the rational investment in human capital depends not only on the return of labour and quality of products and services but also on the permanent development of the firm innovative potential.

In XIX century and in the first half of the XX century the economic theory focused its attention that the wealth increase could be attained due to sufficient investing in financial resources as the investments in machines and equipment were considered to be the reason of business cost growth. But people were and are still the unique factor of production, having the ability to make a cost. By its nature neither money nor raw materials, factories, equipment and so forth can not add or create anything until a person uses its potential and makes them work. Therefore today investments in human capitals are considered to be the major factor of economic development, they are placed on the same level with traditional capital investments in the development of an enterprise and the firm's governing body invest more and more in this factor.

At first the term «human capital» has appeared in the works of Theodore William Schultz, economist, who studied the difficult situation of underdeveloped countries. He asserted fairly that the wellbeing of poor people depended not on the earth, technique or their efforts, but rather on knowledge. He named this qualitative aspect of economy a «human capital» and proposed the following definition: «All human capabilities are either innate, or acquired. Everybody is born with the individual complex of genes, defining his innate capabilities. We name a human capital all the valuable qualities got by the person which can be strengthened by corresponding investments» (Schultz T.W. 1981).

It is necessary to notice that, in our opinion, under these "corresponding investments" should be the investment into knowledge.

It is possible to interpret the investment into human resources at the state level as the investment into creation of "knowledge society".

Paving the way for Eurointegration of Ukraine, it is necessary to create a powerful industry of knowledge. Its establishment is the first and foremost task.

Ukraine is an Eastern European country, which occupies the territory of 603, 5 thousand km² (that is comparable to the territory of France) with 46,6 million inhabitants (the number is comparable to Spain).

Ukraine has a favorable geopolitical position, geographically it is located in the center of Europe, and it is the major transit country. Ukraine became an independent state in 1991 after the collapse of USSR. At present Ukraine is a member of CIS, it collaborates with the biggest global organizations, was among UNO member –founders in 1945, takes an active part in work of various UN economic bodies, is a member of the International Currency Fund, the World Bank, cooperates actively with the European Bank of Reconstruction and Development. In 2008 Ukraine joined the World Trade Organization. Since 1994 it has been closely cooperating with the EU, has developed a strategic program of integration into EU.

However, it is a successful development of innovation economy and economy of knowledge that will give Ukraine the opportunity to become a full EU member. At present, knowledge serves as a source and key driver of economic growth in highly developed countries. According to the World Bank's assessment, physical capital in the modern economy constitutes 16% of total wealth volume of every country; natural capital accounts for 20%, and human capital makes up 64%. While in some advanced countries, for instance in Germany, specific weight of human capital equals 80% of national wealth.

Speaking about a modern postindustrial epoch, it is necessary to pay attention to the problems related to proceses of political, social and economic changes and which directly concern the democracy. There is the whole number of theoretical concepts (where the features of the

development of postindustrial society, based on information communicative technologies, were formulated) to which the theory of postindustrialisation, the theory of "informationization", the theory of tranzitology belong . The theory of a postindustrial society of D.Bell was the first attempt to understand an essence of new information space and communication technologies under the way of developing as the major factors of transition to the new form of democracy. The principles of informative society functioning formulated by him keep their importance to this day. The Alvin Toffler's theory of «three waves» also brought to a focus to roles of information communicative technologies in transformation of sphere of policy, economy and culture of a modern society. The concept of «informational capitalism» of Manuel Castells is based on a great volume of the empirical material representing information development of many countries of the world. A wide factological base allowed to formulate the thesis about the appearance of the informative method of development, closely related to the distribution of global informative networks. Conception of «informational society» is supplemented by the Samuel Phillips Huntington's theory of the third wave, which analyses the basic tendencies of modern world: globalization, information and democratization as basic factors of modern development.

Proceeding from the aforesaid it is necessary to notice that exactly during the postindustrial epoch in conditions where the tools of manufacture influence not on the raw material (as in the industrial era), but on the information and information technologies, the human resources play a key role as they are representing an intellectual "engine" of information innovative progress.

Consequently, the construction of knowledge society is aimed to solve the following problems:

- construction of democracy;
- minimization of social economic inequality;
- development of information economy;
- reduction of scientific, innovative and electronic digital break with the developed countries of Europe;
- increase of employment;
- increase of the information computer technologies level development not only in a country but also in world scales;
- guarantee of free distribution and access to information and to the intellectual resources.

Actually the information which is owned by a person and both his ability and readiness to share this information define valuable potential. Today data and people are connected inevitably, as never before: one can not work with full feedback without another. The improvement of access to the information and knowledge stimulates creative potential, promotes economic growth and increase in employment. The information society requires not only people with general computer

skills which could use information technologies in various daily activity without problems, but also technical specialists and experts.

The Ukrainian economy continues to go along the way of development mainly due to raw sources. Use of raw material potential for mitigation of a crisis situation increase in scales of investments, payments of currency debts, etc. is necessary but is not the main mean of the social and economic problems decision. Possibilities of exploitation of raw material sources are not endless. The unique resource, possibilities of the reasonable use of which are practically boundless - are productive capabilities of people, realized in modern conditions in the form of the human capital.

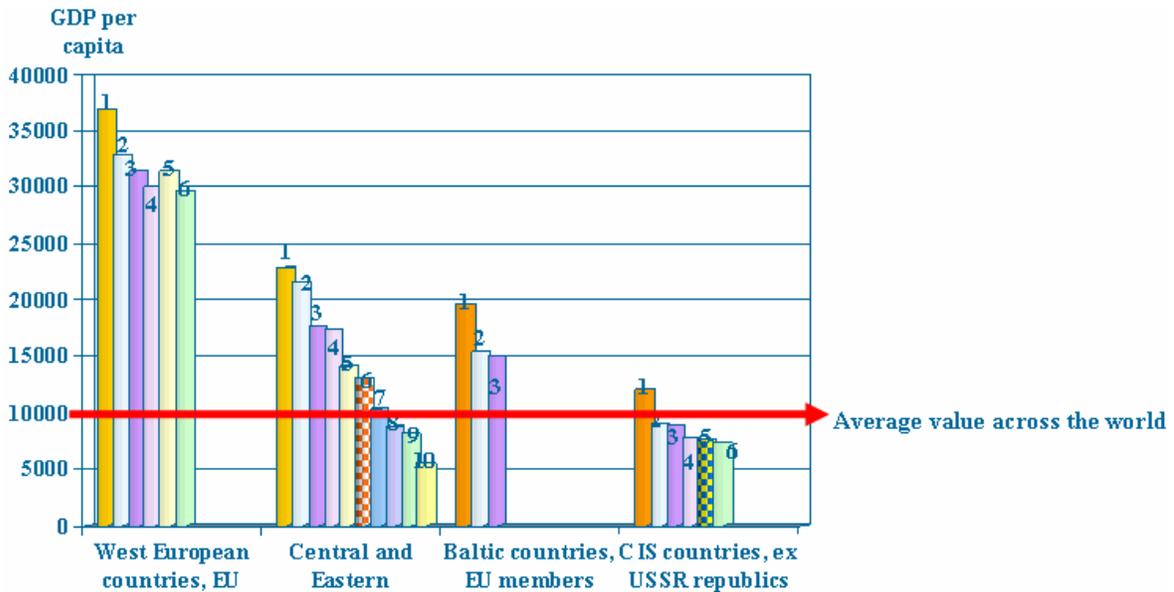
The other problem of the economy of modern Ukraine is the significant depreciation of a fixed capital, absence of sources and reserves of its replacement and accumulation. In this situation the human capital is regarded by the majority of economists as the most valuable and profitable productive resource in comparison with the capital material.

In our country to the beginning of market transformation the significant scientific and technical, educational, qualifying potential was accumulated. The crisis phenomena, discrepancy of the carried out economic transformations led to its depreciation as the latter was created for socialist, planned economy, and consequently, according to its standards. In transition to the market the human capital formed in the conditions of command economy turned to be in an especially vulnerable position. Economic reforms began without any preliminary estimation of their influence on the human potential, without inclusion of necessary social shock absorbers, without revealing admissible scopes of the human capital deterioration in the country, sharply lowered the prereform standard of living, negatively affected labour and social activity, reduced, both private and state sector opportunities to invest in the development of productive capabilities of the population. Underexploitation, destruction of the accumulated human capital (in the period of crisis 1992-1999 years), absence of new directions of its development created serious fears that the Ukrainian economy can lose one of the most perspective sources of economic progress.

Nowadays, Ukraine lags far behind from leading European countries in economic progress along with economic competitive strength. As you know, such organizations as the World Bank, the International Currency Fund, and the World Trade Organization use GDP statistics per capita to assess economic growth rates of a country.

On Diagram 1 and on in the Table 1 the sizes of GDP per capita in some countries of Western, Central and Eastern Europe - new members of the EU and in Ukraine, and also in other CIS countries are shown (www.cia.gov).

Diagram 1 - Gross Domestic Product of highly developed European countries – EU members and countries with transition economy (by the rate of buying power parity), 2006.



These figures clearly demonstrate that Ukraine is too slow in increasing these rates comparing not only to Western Europe but also to leading countries of Central and Eastern Europe.

Table 1 – Gross Domestic Product of highly developed European countries – EU members and countries with transition economy (by the rate of buying power parity), 2006.

West European countries, EU members	GDP per capita, USD	Central and Eastern European countries	GDP per capita, USD	Baltic countries, EU members	GDP per capita, USD	CIS countries, ex USSR republics	GDP per capita, USD
1 Denmark	3700	1 Slovenia	22900	1 Estonia	19600	1 Russia	12100
2 Finland	32800	2 Czech Republic	21600	2 Latvia	15400	2 Kazakhstan	9100
3 Germany	31400	3 Slovakia	17700	3 Lithuania	15100	3 Turkmenistan	8900
4 Great Britain	30100	4 Hungary	17300			4 Belarus	7800
5 France	31400	5 Poland	14100			5 Ukraine	7600
6 Italy	29700	6 Croatia	13200			6 Azerbaijan	7300
		7 Bulgaria	10400				
		8 Romania	8800				
		9 Macedonia	8200				
		10 Bosnia and Herzegovina	5500				

We regret to state a fact that notwithstanding Ukraine’s vast natural resources, industrial, scientific and intellectual potential, it has a poor economic competitive strength. Under WEF Report of 2005, Ukraine ranks 84 in competitiveness index among 117 countries.

Table 2 - Rating and Index of technological competitiveness its components for certain countries with transition economy, according to the World Economic Forum Report of 2005

Countries	Rating (R) and Index (I) of technological competitiveness		Some components of technological development				Level of technology transfer	
			Level of innovation		Level of informational and communicational technologies			
Resent EU Members	R	I	R	I	R	I	R	I
Czech Republic	21	4.84	45	2.57	30	5.04	5	5.35
Slovenia	24	4.73	23	3.26	28	5.28	51	4.42
Hungary	32	4.57	38	2.76	35	4.68	21	5.04
Poland	34	4.44	29	3.20	41	4.36	26	4.97
Russia	69	3.61	27	3.36	56	3.66	69	3.62
Ukraine	84	3.15	36	2.79	70	3.00	71	3.46

Global Competitiveness Report of the World Economic Forum, 2005

In Table 2 you can see data which testify that by the level of technological competitiveness Ukraine concedes not only to the leading Central and Eastern European countries, but also to the Baltic republics, Russia and Kazakhstan.

Thus, the development of competitive economy in Ukraine must be approached from technology perspective that is to speed up the technology progress in the country, to implement information and communication technologies (ICTs) and to provide the impetus for local policies to contribute to innovation and technology growth of industries and business.

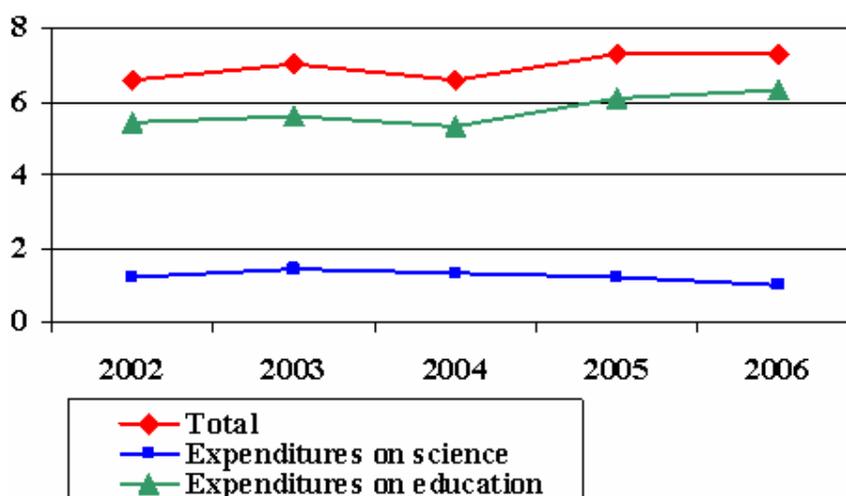
Science and system of education are of crucial importance when the country is determined to switch to innovation development. Presently, investments in knowledge increase in rates, far outweighing the growth rates of real capital investment. It is caused by an extremely high profitability of unique products in terms of sophisticated manufacturing and research-and-development activities. A regular increase in R&D and GDP expenditure has become a common trend in advanced European countries. This index constitutes 3% in highly developed EU states.

On the Table 3 you can find the data describing dynamics of investments into knowledge in related to their specific weight into Ukraine's GDP (Osaulenko O.S., 2007).

Table 3 – Investment in knowledge

Years	Investment in knowledge, % of GDP		
	Total	Expenditures on science	Expenditures on education
2002	6.6	1.2	5.4
2003	7.0	1.4	5.6
2004	6.6	1.3	5.3
2005	7.3	1.2	6.1
2006	7.3	1.0	6.3

Diagram 2 – Investment in knowledge



As you can see by the data on the Table 3 and in the Diagram 3 in Ukraine the specific weight of expenses for science does not much exceed 1%. By this parameter Ukraine essentially lags behind the developed European countries for the present. At the same time as a positive tendency it is necessary to note, that in Ukraine the specific weight of investments into education is growing, including those into a higher education.

Thus, as a whole it is possible to draw a conclusion that investments into knowledge are growing in Ukraine, their specific weight in volume of GDP increases. Considering two most important parameters which can be recognized as priority in construction of economy of knowledge – these are the state expenses for education in percentage to GDP and quantity of students per 10 thousand of population. We can say, that by these parameters Ukraine does not lag behind the developed countries of the EU. Due to significant expenses from the state budget for education in

Ukraine, the educational level of the population as a whole and hired workers in various branches of economy is rather high. In the beginning of 2007 27.3 % of total the number of hired workers in Ukraine had complete higher education, this parameter corresponds to the level in the developed countries of the European Union. Diagrams 3 to 6 present the dynamics of the growth in higher schools quantity, the number of students and post-graduate students, as well as the number of students per 10 thousand of population over the years of development of Ukraine as an independent state. According to this parameter, Ukraine is not lagging behind the countries of Western Europe (Osaulenko O.S., 2007).

Diagram 3 – Number of higher schools (III-IV levels)

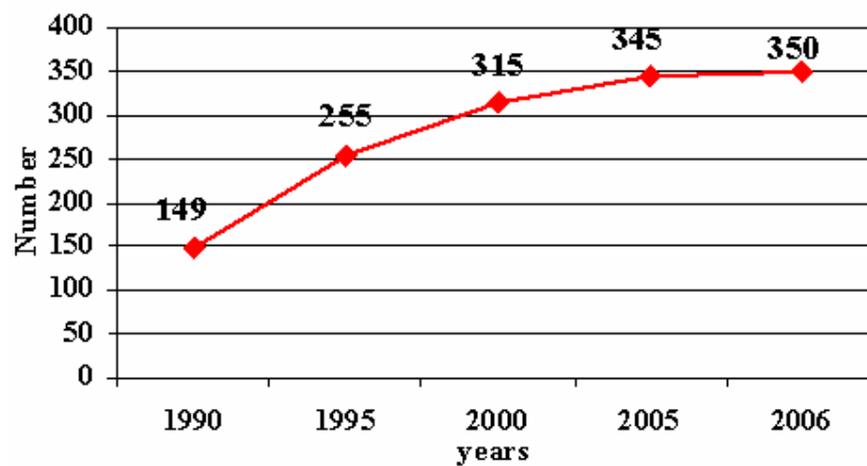


Diagram 4 – Number of post-graduate students,ths. people

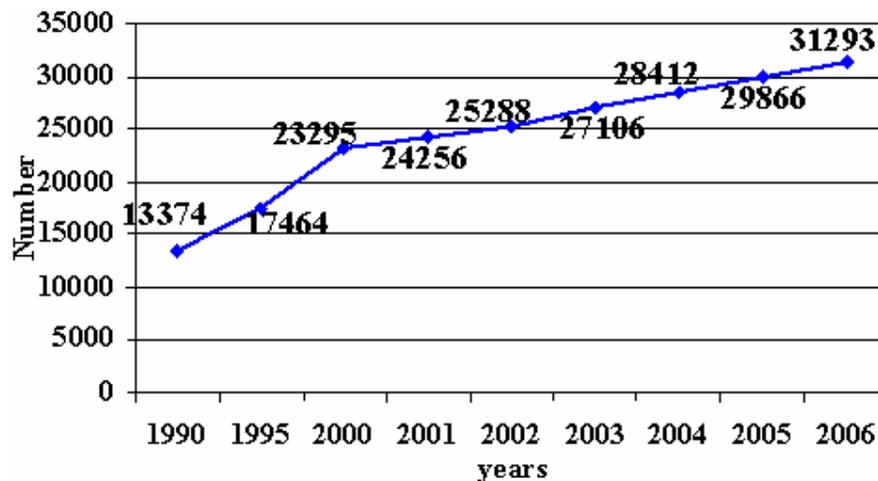


Diagram 5 – Number of students in higher schools (III-IV levels), ths.people

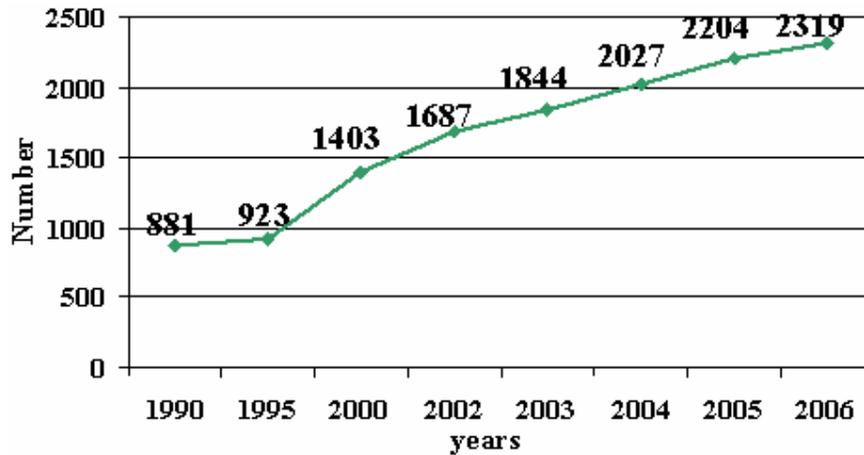
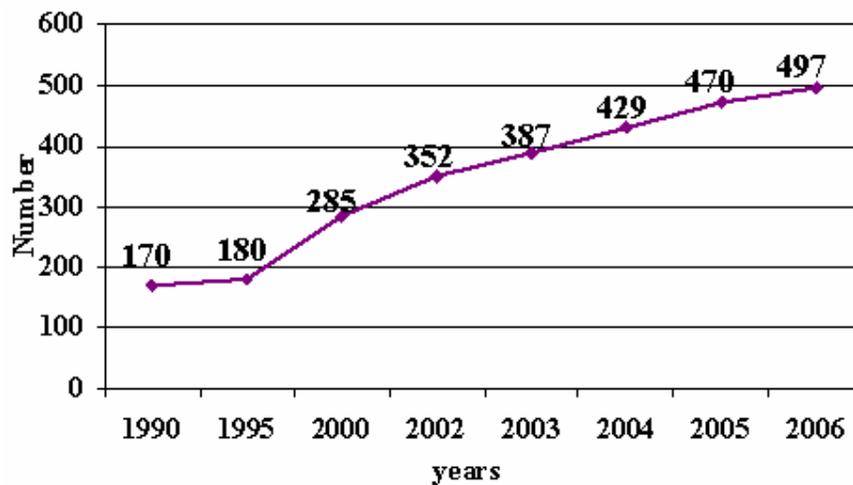


Diagram 6 – Number of students in higher schools per 10 ths. of population



Presently the system of higher education in Ukraine is being successfully reformed in accordance with the fundamentals of Bologna declaration . Ukraine joined the Bologna Convention in 2004 and since then it has made significant steps towards accession to the all-European educational space.

The principal factor for building a knowledge-based economy is the efficiency of investment in human resources. In economic literature “investment in human capital” stands for investment into the following:

- education including higher education
- occupational training and extension courses
- lifelong learning promoting personal growth
- and research studies.

A number of authors considers expenditure on public health as a part of human capital investment. From our point of view, apart from the above mentioned kinds of expenditure,

investment in HR should include also state budget expenses on spiritual growth and physical development of population. In Ukraine, as shown on page three, investment in HR constitutes one third of consolidated budget expenses of Ukraine.

Human Development Index is the worldwide summary indicator for the standard of living. This integrity-based indicator embraces different factors: GDP per capita, salary, buying power, education level of population, medical service, and life expectancy. According to HDI top ten countries include the following EU states: Sweden, Ireland, and Belgium (HDI is higher than 0.945 at maximum value 1).

Under the Report on Human Development the group of countries with high human development level (0.800 and higher) lists as well some countries of Central and Eastern Europe: the Czech Republic, Hungary, and Croatia. Ukraine belongs to the group of countries with average human development level (0.766) and in accordance with this index lags far behind advanced countries. Though it is worth mentioning, Ukraine gradually gets higher positions in this rating (Kevin Watkins 2007)

To summarize the above mentioned, it should be said that Ukraine is determined in its Euro integration course and has made considerable progress aimed at achieving full membership in the European economic educational and scientific community. Ukraine has all necessary preconditions needed for successful eurointegration process. To build the innovation model of economic development, the knowledge economy, Ukraine is to use the experience of EU countries including most developed countries of Central and Eastern Europe.

The increase of investments into the human capital will allow to accelerate considerably the advancement of Ukraine on the way of eurointegration, will become in the future the a strong guarantee of a full membership in the European Union. And if to talk about the development of multilateral partnership, it is necessary to emphasize that embodiment in life of the slogan «high quality education for all» is able to become the basis of forming of the international knowledge society and creation of the new world.

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