

UDK

INVESTMENT CLIMATE IN UKRAINE IN CASES OF FORCE MAJEURE

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Logutova T., Kapranova L., Kapranov M. Investment climate in Ukraine in cases of force majeure

The article deals with the problem of deteriorating investment climate in Ukraine in force - conditions or in conditions of instability. The dynamics of foreign direct investment in Ukraine and Ukraine. It is concluded that there is a significant outflow of capital from Ukraine. Direct foreign investment in Ukraine decreased significantly. The reason for this condition is unstable political and economic situation in the country. The structure of FDI in Ukraine.

The main suppliers of FDI on the domestic market of Ukraine are Cyprus, Germany, and Netherlands. Such state is explained by the tax niches, which exist in their territory (offshore harbor). Embedding FDI from Russia due to the desire to acquire Russian structures of the enterprise or shares in the capital of Ukrainian enterprises. The share of other countries in the volume of FDI in Ukraine is less than 10%.

The technological renovation and modernization of production depends on the availability of FDI and its real growth. Thus, the innovative activity of the enterprises of the industrial sector influences mostly on the environmental security of the country.

In general, the current situation is pushing to very unpleasant **conclusions**. A huge number of local industries, which are already not suitable to operate under any circumstances and should be closed or upgraded due to physical deterioration, as they are already real sources of operational and environmental accidents and disasters are concentrated in Ukraine. Their impact can surpass the results of Chernobyl in the 21st century for a European country with a population of 46 million people. It can be argued that the "critical point" for them has already been passed. The current situation with the technological upgrading industrial enterprises, infrastructure, social services, etc., is in a condition when business owners and government agencies buy ready-made technology easier than invest into the scientific sphere. This conclusion at the right approach is to make the government to change the attitude to the formation of the national budget, and to the investment-innovative policy of the state as a whole.

Логутова Т.Г., Капранова Л.Г., Капранов М.А. Інвестиційний клімат в Україні в форс-мажорних ситуаціях

У статті розглядаються проблеми погіршення інвестиційного клімату в Україні в форс - умовах або в умовах нестабільності. Представлена динаміка прямих іноземних інвестицій як в Україну, так і з України. Зроблено висновок, що спостерігається значний відтік капіталу з України. Прямі іноземні інвестиції в Україні значно зменшилися. Причиною такого стану є нестабільна політична та економічна ситуація в країні. Проаналізовано структуру ПІІ в Україну. Основними постачальниками ПІІ на внутрішній ринок України залишаються: Кіпр, Німеччина, Нідерланди. Такий стан пояснюється тими податковими нішами які існують на території цих держав (офшорні гавані). Вкладення ПІІ з Росії пояснюється бажанням російських структур придбати підприємства або частки в капіталі українських підприємств. Частка решти країн в обсязі ПІІ в Україну становить менше 10%. Від наявності ПІІ та їх реального приросту безпосередньо залежить технологічне оновлення та модернізація виробництва, тобто інноваційна активність підприємств промислового сектора, який найбільш впливає на екологічну безпеку країни.

В цілому існуючий стан підштовхує до вельми неприємного висновку. В Україні зосереджена величезна кількість локальних виробництв, які вже ні за яких умов не є придатними до експлуатації і підлягають закриттю або модернізації унаслідок фізичного зносу, так як є вже реальними джерелами експлуатаційних та екологічних аварій і катастроф. Їх наслідки в 21-му столітті для європейської

країни з 46-мільйонним населенням можуть перевершити результати Чорнобиля. Можна стверджувати, що «критична точка» для них вже пройдена. На даний момент ситуація з технологічним оновленням промислових підприємств, підприємств інфраструктури, соціальної сфери тощо, знаходиться в стані коли власникам підприємств та державним структурам простіше купувати готові технології ніж вкладати кошти в розвиток наукової сфери. Такий висновок при правильному підході повинен змусити уряд країни змінити ставлення і до формування бюджету країни, і до інвестиційно - інноваційної політики держави в цілому.

Логутова Т.Г., Капанова Л.Г., Капанов М.А. Инвестиционный климат в Украине в форс-мажорных ситуациях

В статье рассматриваются проблемы ухудшения инвестиционного климата в Украине в форс - условиях или в условиях нестабильности. Представлена динамика прямых иностранных инвестиций как в Украину, так и из Украины. Сделан вывод, что наблюдается значительный отток капитала из Украины. Прямые иностранные инвестиции в Украину значительно уменьшились. Причиной такого состояния является нестабильная политическая и экономическая ситуация в стране. Проанализирована структура ПИИ в Украину. Основными поставщиками ПИИ на внутренний рынок Украины остаются: Кипр, Германия, Нидерланды. Такое состояние объясняется теми налоговыми нишами которые существуют на территории этих государств (оффшорные гавани). Вложение ПИИ из России объясняется желанием российских структур приобрести предприятия или доли в капитале украинских предприятий. Доля остальных стран в объеме ПИИ в Украину составляет менее 10%. От наличия ПИИ и их реального прироста напрямую зависит технологическое обновление и модернизация производства, т. е. инновационная активность предприятий промышленного сектора, который наиболее влияет на экологическую безопасность страны.

В целом существующее положение подталкивает к весьма неприятному **выводу**. В Украине сосредоточено огромное количество локальных производств, которые уже ни при каких условиях не являются пригодными к эксплуатации и подлежат закрытию или модернизации по причине физического износа, так как являются уже реальными источниками эксплуатационных и экологических аварий и катастроф. Их последствия в 21-ом веке для европейской страны с 46-миллионным населением могут превзойти результаты Чернобыля. Можно утверждать, что «критическая точка» для них уже пройдена. На данный момент ситуация с технологическим обновлением промышленных предприятий, предприятий инфраструктуры, социальной сферы и т.п., находится в состоянии когда владельцам предприятий и государственным структурам проще покупать готовые технологии чем вкладывать средства в развитие научной сферы. Такой вывод при правильном подходе должен заставить правительство страны изменить отношение и к формированию бюджета страны, и к инвестиционно - инновационной политике государства в целом.

According to D. Bogush, 200 countries compete with each other in the global competitive environment. One state is stronger than the others, the other has the highest number of population, the third has more oil and gas, the next is the presidency of the United Nations or the European Union, another is famous for the best coffee or tea, and other is famous for reliable cars or computers, someone is ready to fly to Mars. All these countries compete for investment flows, redirected to the economy of their countries.[1]

There is a constant competition between these countries for investment flows, for competitive position in the market, but each country has some exceptional views of the resources that is available at it in greater numbers than at their neighbours. At the same time, each country tries to occupy leading positions in the global arena.

The structure (proportion) of extensive and intensive factors in the development of the country should be analyzed during the study of the dynamics of "competitiveness". For steady increase, competitiveness of the country the increase in the share of intensive factors of economic development should be ensured, for the constant improvement of the activity and effectiveness of innovation. The structure of the factors of production and investment must be continuously improved in favor of innovation (innovation). The more the GDP share of high-tech products, high technology, the higher the country's competitiveness.

The leading American scientist Michael Porter has developed the theory of competitive advantage. He introduced four fundamental concepts in the proposed model, based on the analysis of which he has proposed to evaluate the competitive advantages of industries, patterns of their origin, development and decline: the parameters of factors; firm strategy, structure and rivalry between them; demand parameters; related and supporting industries.

The main idea of the concept is a competitive advantage in the industry as part of the state, which is

determined by determinants of competitive advantage of the country, which significantly influence on each other.

But after further researches, Porter introduces into this model two additional factors: random events and actions of the government. Under random events Porter refers the invention; breakthrough technologies; abrupt changes in prices of resources; abrupt changes in global financial markets or in exchange rates; abrupt changes in local and international demand; policy decisions of local and foreign governments; wars and other force majeure.

Porter understands under the government's actions the impact of executive power on monetary, tax and customs policy in the country. The Government also determines the norms, standards, which can affect both producers and consumers. In addition, the government is the largest customer in the economy. Government influence can be both positive and negative.

What is the situation now in Ukraine in the condition of an unstable situation, or force - majeure? If we analyze the state of arrival of FDI in Ukraine Fig. 1, the FDI have positive dynamics.

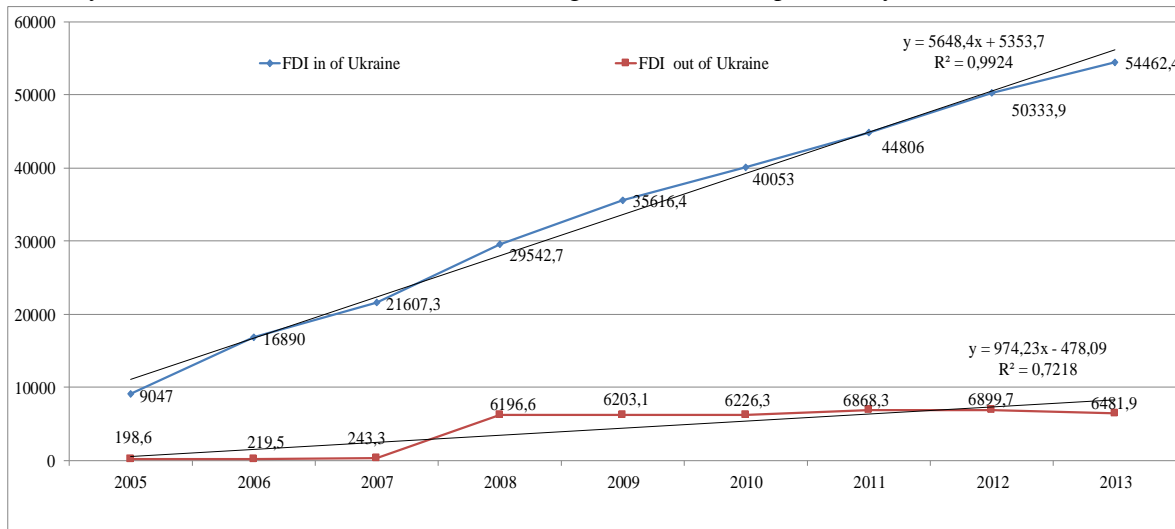


Fig. 1. Dynamics of FDI in and out of Ukraine during 2005 - 2013. (At the beginning of the year, million the USA dollars.

We see at figure 1 a steady dynamics of inflow of FDI into Ukraine. However, what is the real picture of this process?

Only during the first half of the year pure outflow of foreign capital from Ukraine is five times higher than all investments of last year (1.28 billion \$) and reached 6.8 billion \$.

Since the beginning of this year, capital outflows from the Ukrainian banking system amounted 101 billion UAH, which corresponds to approximately 7,5 billion \$, taking into account fluctuations in the hryvnia, according to the report of the head of the NBU V. Gontareva,

Such movements in the money supply have put on the brink of survival domestic financial institutions, and deprived the country of domestic resources for investment.

All the countries except Poland reduced the presence of their capital in Ukraine since the beginning of the year. Of the \$ 6.8 billion, which had gone out of the country, 5 billions \$ officially have European origin. Generally, the structure of the investor countries is almost unchanged, the lion's share of direct investments accounts for the EU countries. During the last six months, it even increased slightly from 77.1% to 77.6%.

Political and military problems touched this source of investment greatly. If at the beginning of the year the investments of Cypriot origin in Ukraine were estimated 18.9 billion \$, then in July they fell by \$ 3.2 billion. (17%). This decrease can be explained by the turbulent and unstable situation in Ukraine.

Almost all countries that have stepped up their presence in the domestic economy last year are gradually emerging assets from Ukrainian. Such countries as Austria and the United Kingdom reduced direct investment on 400 million \$; Germany, the Netherlands, Luxembourg brought out 200 million \$ each. France, Italy, Hungary sold assets for 100 million \$ each. Only Poland is at the same level of investment (US \$ 800 million.). Other countries are also actively withdraw their capital out of the domestic economy 1.8 billion\$. Of Non-European, money is taken out of Ukrainian for the last six months.

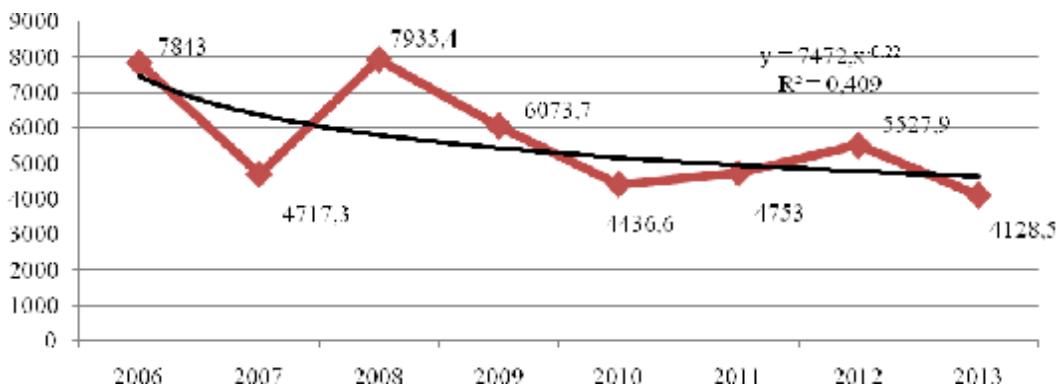


Fig. 2. The dynamics of growth of FDI into Ukraine in 2006 - 2013 (at the beginning of the year, million USA Dol.)

It is possible to make a conclusion, with all the prosperous state of FDI in figure 1 into Ukraine in a more detailed analysis of the figure 4 that, despite the apparent increase of FDI into Ukraine its real growth decreases with each passing year. Decline in 2012 compared to 2007 was almost twice, from 7,935.4 billion US dollars to 4,128.5 billion US dollars. Therefore, the economy of Ukraine has not received – 3,806.9 billion US dollars. USD.

Geographical structure of attracted FDI into Ukraine (Fig. 3) remains, virtually unchanged for over ten years.

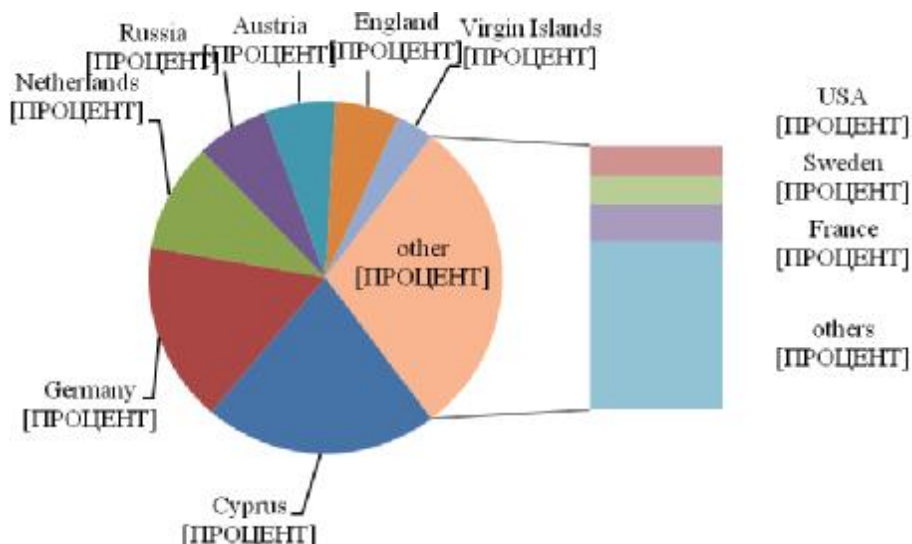


Fig. 3. The geographical pattern of FDI into Ukraine in 2010

The main suppliers of FDI on the domestic market of Ukraine are Cyprus, Germany, and Netherlands. Such state is explained by the tax niches, which exist in their territory (offshore harbor). Embedding FDI from Russia due to the desire to acquire Russian structures of the enterprise or shares in the capital of Ukrainian enterprises. The share of other countries in the volume of FDI in Ukraine is less than 10%.

The technological renovation and modernization of production depends on the availability of FDI and its real growth. Thus, the innovative activity of the enterprises of the industrial sector influences mostly on the environmental security of the country.

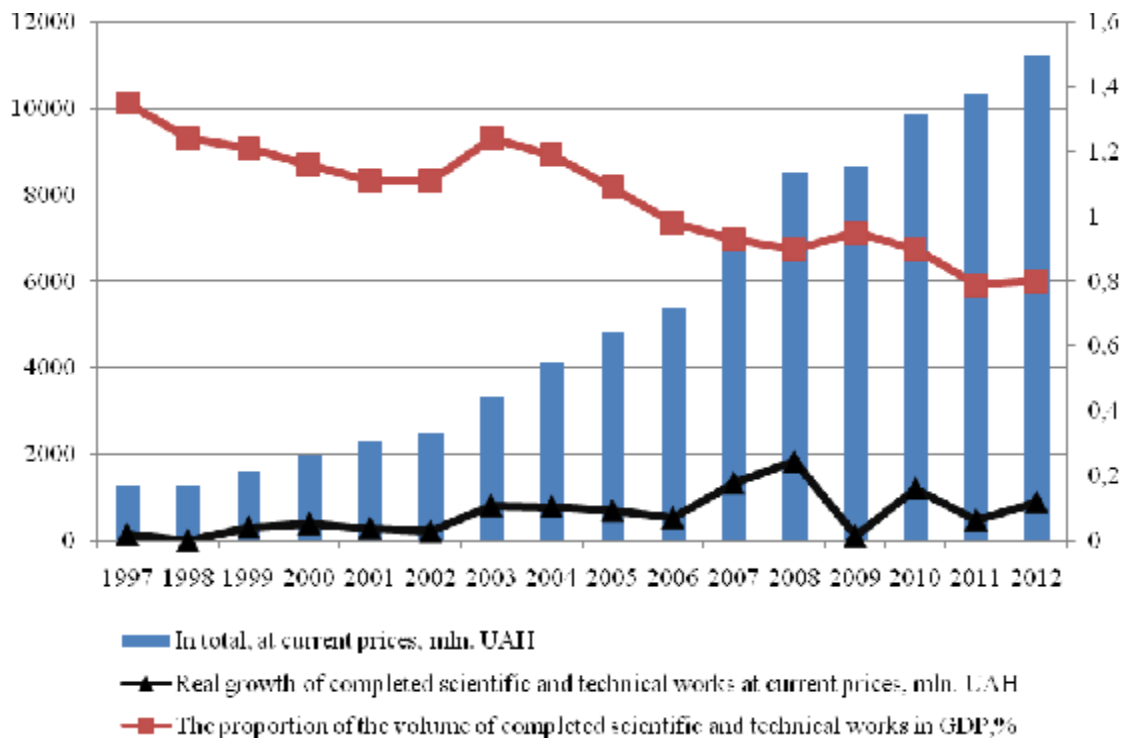


Fig. 4 The dynamics of implementation of scientific and scientific - technical works during 1996 - 2012

Therefore, we can say that, despite the apparent increase of scientific and scientific - technical works, which was done during the 1996 - 2012. (Fig. 4) at current prices, there is a steady downward trend in their share of the country's GDP. In addition, if we consider the real growth of scientific and scientific - technical work, which was done during the 1996 - 2012, then there is a tendency to decrease.

The main direction of innovative activity of enterprises in Ukraine, first of all, is the acquisition of machinery, equipment and software for the production of new or substantially improved products and services from abroad according to the State Statistics Service. So attracted FDI and loans from international organizations continue to invest into the economies of other countries instead of the development of national science and technology base and further sustainable development of the economy.

European Business Association (EBA) is concerned about the situation in Ukraine. As pointed in its application, the current political conflict could push the already weak Ukrainian economy to recession and lead to prolonged crisis, which will significantly affect the investment climate and the private sector. During the last year, foreign direct investment fell by 50%. And, the EBA noted, if the situation is not corrected, it can cause a financial crisis, and as the consequence of it reducing the country's investment attractiveness and negative investor sentiment can be a reduction in production and employment.

And although at the level of declarations Ukraine has quite advanced investment legislation, adapted to EU standards, and there are 50 international agreements, but in practice, the real support of investors by government bodies managers of enterprises operating in Ukraine know the best.

According to cracking investigation, conducted by the EBA from 25 November to 12 December 2013, in the fourth quarter, the business climate in Ukraine is estimated at the lowest measuring indicator - 1.81 for all the history. [3]

World Bank Director for Ukraine and Belarus Chimiao Fan enumerated factors that prevent long-term investment into Ukraine:

- the average market cost of credit more than 20% per annum at zero inflation;
- corruption;
- overregulation of the market;
- external debt (at the turn of 2013-2014 the direct public debt exceeds 60 billion \$, the structure of which is for 1 UAH is 43.8%, for 1 US \$ is 32.4%, for the SDR (IMF currency) - 19.7%);
- dependence on external markets of pricing formation on imported goods;
- low level of confidence in the financial sector.

Regarding to the level of trust, Attila Koksai, a board member of CFA Institute, cited alarming statistics about Ukraine: the level of public confidence of population to the financial sector is only 46%, whereas, for example, to the industry is 73%.

O. Ustenko, an executing director of the International Blazer Fund, agreed with him and announced in his report the following negative macro indicators:

- one of the lowest GDP per capita in purchasing power parity (8000 dollars);
- High level of annual budget deficits (usually from 5.5%), which closes the access to foreign debt capital markets for Ukraine;
- excessive desire to keep the hryvnia exchange rate with the use of administrative tools of monetary and exchange rate policies. This led to a drop in the level of foreign exchange reserves to the turn in 2013-2014 to the level of about \$ billion 20.

"Application of the «model rule» method (conformity to type), particularly in the monetary sphere, leads to the fact that the country's macroeconomic indicators do not reflect the real economy. A political factors can only exacerbate the risks of economic stagnation ", - Dmitry Sologub emphasized, the Head of Research Department of Raiffeisen Bank Aval.

What are the investment prospects of Ukraine in 2015 - 2016 years?

Concord Capital identifies three possible the most promising areas of investment in Ukraine in the next few years:

- medicine (an increase of 50% -100%);
- mining industry;
- agriculture.

As well as such promising areas of investment:

- IT - technology;
- import-substituting industries.

In the short term, the flow of investment could be expected in the following areas:

- retail trade;
- the social sector;
- agriculture.

Let's notice that in 2013, Ukraine has risen by 28 positions in the ranking of easiness of doing business of the World Bank - «Doing Business» (true, after that we already occupy position 112 out of 189: between Lebanon and Papua New Guinea). Also, Ukraine is among the world's outsiders in sub-rating of the access to energy (172 place), taxes (164), bankruptcy (162), cross-border trade (148) and protecting investors (128). [4]

According to analysts of consulting company "MAYGER" the ensure of a favorable investment climate in Ukraine remains a matter of strategic importance, the implementation of which depends on the socio-economic dynamics, efficiency of involvement into the global division of labor, the ability to upgrade of the national economy on this basis.

During the 2010 - 2011 years Ukraine had taken a number of legal acts that are positively influenced on the investment climate in Ukraine. Thanks to considerable efforts in the formation of appropriate organizational, economic and legal frameworks to strengthen the investment climate, international experts noted the improvement of investment attractiveness of Ukraine. Thus, according to the annual rating research of the International Finance Corporation, the World Bank Group "Doing Business 2012" although Ukraine worsened its position from 149 to 152 place, but at the same time there was an increase in following categories: "Starting a Business", "getting construction permits "and" overcoming of inability to pay".

Table 1

Doing Business rating as a measure favored investment climate

Ratings by Category	2012	2011	rating changes
Starting a Business	112	118	+ 6
Procedures (quantity)	9	10	- 1
Time (days)	24	27	- 3
Cost (% of income per capita)	4,4	6,1	- 1,7
Minimum capital (% of income per capita)	1,8	2,2	- 0,4
Getting Permission for Construction	180	182	+ 2
Procedures (quantity)	21	21	unchanged
Time (days)	375	375	unchanged
Cost (% of income per capita)	1462,1	1731,4	- 269,3
Insolvency overcoming	156	158	+ 2

Term (years)	2,9	2,9	unchanged
Cost (% of property value)	42	42	unchanged
Quota of compensation (cents per \$ 1. US)	8,9	7,9	+1

*Source: The International Bank for Reconstruction and Development: Doing Business 2012

As it can be seen from table. 1, during 2011 a number of administrative barriers of doing business were eliminated. Thus, in comparison with the previous year there were positive changes such as: reduction in the number of procedures, time, cost and minimum amount of capital to start a business. In addition, the cost to obtain construction permits reduced, as well as the rate of reimbursement in the event of insolvency of the business increased.

At this moment a legal framework for investment is developed in Ukraine. Ukrainian legislation provides the necessary guarantees of investment activity. Foreign investors apply a national regime of investment activity, ie an equal level in playing field with domestic investors is provided for them in Ukraine. Foreign investments in Ukraine shall not be nationalized.

Questions regarding the promotion of investments are reflected in Investment reform in Ukraine, which was considered and adopted by the Government on April 6, 2011. General and the main goal of this reform is to attract actively foreign direct investment into Ukrainian economy, the formation of positive investment image of Ukraine in the world, as well as the positioning of Ukraine as a financial, political and business center in Eastern Europe. The structure of the investment reform provides 5 key building blocks (Tab. 2).

Table 2

The concept of investment reform in Ukraine

Components "Invest reform"	Tasks
Invest OFFER	provides the mechanisms formation of participation of Ukrainian investment projects. at the international investment market.
Invest INFRASTRUCTURE	the system of establishments and mechanisms which facilitate the activity of investors in Ukraine will be created within the framework of.it
Invest PARTNERSHIP	new mechanisms for cooperation between the state of private partners to mobilize public assets and multiplying of public funds for development.
Invest MARKETING	implementation of a coordinated information and marketing company, which significantly improve the investment attractiveness of Ukraine in the world.
Invest climate	formation of an appropriate legal basis, which is initiated in many cases by the President of Ukraine and is under consideration in Parliament.

*Source: State Agency for Investment and National Projects of Ukraine: Working group "National Projects"

As it can be seen from Fig. 7, by means of specific instruments set out in the Investment Reform, drastic increase of the volume of the capital involved into the national economy, the implementation of strategic directions of economic development; the creation of institutional conditions for technological modernization and innovation, the introduction of new principles of governance, modernization of the mechanism of budget management development; creating an effective mechanism for the development of investment proposals (projects); implementation of integrated planning of regions development, based on investment plans are being planned.

In general, the current situation is pushing to very unpleasant **conclusions**. A huge number of local industries, which are already not suitable to operate under any circumstances and should be closed or upgraded due to physical deterioration, as they are already real sources of operational and environmental accidents and disasters are concentrated in Ukraine. Their impact can surpass the results of Chernobyl in the 21st century for a European country with a population of 46 million people. It can be argued that the "critical point" for them has already been passed. The current situation with the technological upgrading industrial enterprises, infrastructure, social services, etc., is in a condition when business owners and government agencies buy ready-made technology easier than invest into the scientific sphere. This conclusion at the right

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Ключевые слова: экономика, правительство, инвестиции, бизнес, капитал, конкурентоспособность, оффшорные гавани.

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