



International Finance

Svitlana VOVK

**INTERNATIONAL FOREIGN DIRECT
INVESTMENT FLOWS
AND UKRAINE'S PARTICIPATION IN THEM**

Abstract

The paper studies and analyses the global flows of foreign direct investments on the whole and determines the Ukraine's participation, in particular. The role of transnational companies in the processes of direct investments is studied, and trends of the forms and methods' development are analyzed for internationalization of international companies' activity.

Key words:

Foreign direct investments, transnational company, global city, mergers and acquisitions strategy, international business, approaches to international business.

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Subject topicality

From decade to decade the three production factors determined by Adam Smith, namely land, labor and capital – the latter one becomes of ever greater importance. Specifically, the capital mobility is implied in global scale and the effect it produces on both, other factors of reproduction, and on global economies, in general. Taking into account, that modern world economy is described by the development of interdependences and interrelations among the countries throughout the world, the capital mobility as the production factor became the significant factor for global economic growth as a whole, and every world country, in particular. Therefore, the modern stage of global economic development is characterized with the increased role of foreign direct investments.

Problem definition

The main objective of this paper is to study the international flows of foreign direct investments and to determine the participation of Ukraine in this process. To achieve the objective the author set the following tasks: to analyze the behavior of the FDI volumes and their trends in global economy; to determine the role of TNC in the FDI processes; to evaluate the scope of Ukraine's participation in global FDI flows.

Global Flows of Foreign Direct Investments

Recent decades have been marked by significant increase of foreign direct investments in global economy. Thus, after four year growth the global FDI inflow increased in 2007 by 30% and reached up to \$ 1833 bln, which exceeds the top indication of 2000 (see fig. 1).

In general, starting from 1970 through to early 2008 there conditionally could be distinguished the following three stages of activating the FDI processes in global economy:

- I stage – 1970–1990. FDI grow slowly but steadily;
- II stage – 1991–2000. The FDI volumes greatly increased in global economy. Thus, compared to 1970 they grew by 105 times, and compared to early 1991- by 9,1 times;
- III stage – 2003–2007. Compared to 1970 FDI grew by 97 times, and compared to 2003 – by 2,3 times (see fig. 1).

Figure 1.

FDI flows in global economy

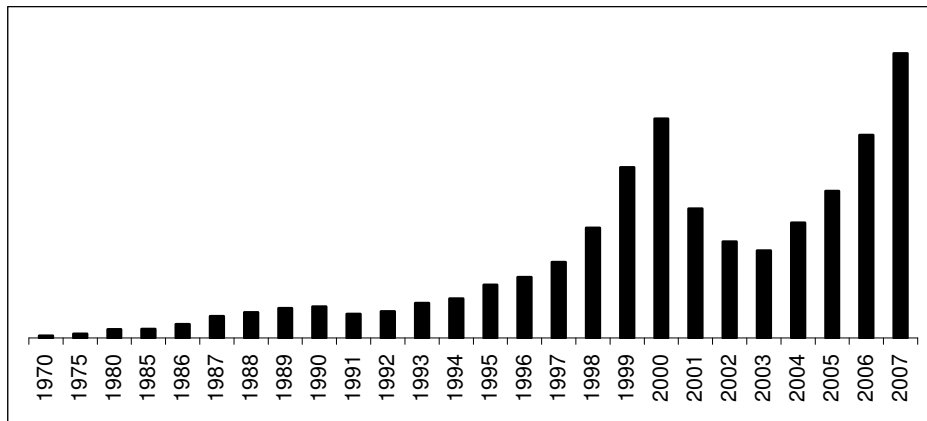
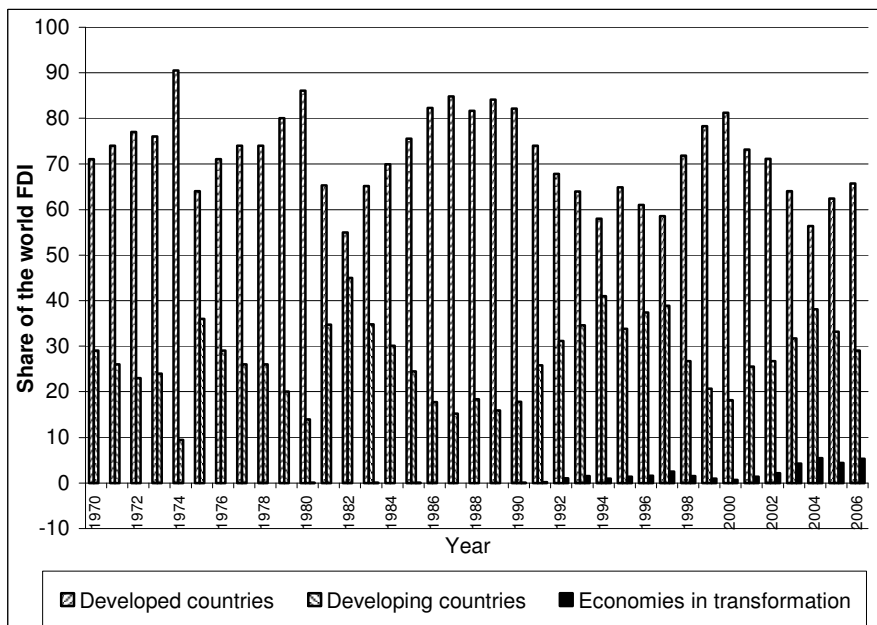


Figure 2.

FDI flows in global economy



As we see, the second and third stages are described by the most positive behavior of FDI increase.

Proceeding from the calculations of the shares of the world countries' FDI an interesting trend is observed, (see fig.2) which can be identified as the action of «mirror principle», implying that the FDI promotion to the developed countries is attended by automatic decrease of investment activity in the developing countries. There is the prospect trend to equalize the share of the developing countries against the developed ones.

The lion share in the global FDI flows to the developed countries. Thus, the countries that received the greatest FDI value in 2007 are the following: the USA, the United Kingdom, France, Canada, and Netherlands (table 1). The region that received the greatest FDI value was the European Union (2/3 of total FDI inflows inward the developed countries).

The major part of foreign investments into real developing economies is concentrated in rather small group of the most dynamic and successful countries. Due to their perfect technical and technological potential, likewise to socio-cultural one they use to adapt better and faster to global tendencies and imperatives [11; 5]. Among the countries of the named group China, Hong-Kong (China), and Russian Federation received the greatest FDI value.

The countries with transformation economies constitute a more stable group among the participants of FDI global flows. Those countries' equity contribution in global FDI is minor, making in 2006 only 5, 3%.

According to UNCTAD classification of the FDI inflows and attraction potential the world countries are divided into four following groups (see table 2): front-runners; below potential; above potential; and under-performers.

In recent decades the scientific community has redoubled its attention to the phenomenon of so called world or global cities (see table 3). The modern theory of global cities proceeds, first of all, from the specific participation of a number of centers in the architecture of global socio-political environment and world economy. As the place of residence of key individuals, and location of establishments and organizations, those centers administer, manipulate, dictate, and define the formation and reproduction of capitalism throughout the world; also they serve a kind of command and controlling points of global geopolitical and geo-economical system [8; 10]. That situation allows observing the creation of global city-centric model of spatial organization of the whole world system.

The network model GaWC of the research group « The Research Group of Globalization and Global Cities» presents a concept enabling to formalize the model as the following three-tier net: the global economy level; the city level as a focal point where the science intensive services are produced; corporate level.

The global centers possess a powerful demographic complex, and they create big agglomerations. Global cities are the greatest receiving centers of migration flows from all the regions of the world.

Table 1

FDI flows in the regions of the countries, 1995–2007, US\$ bln.

Region / country	FDI inflows							FDI outflows						
	1995-2000*	2002	2003	2004	2005	2006	2007	1995-2000*	2002	2003	2004	2005	2006	2007
Developed countries	539,3	442,9	361,1	403,7	611,3	940,9	1247,6	631,0	483,2	507,0	786,0	748,9	1087,2	1692,1
Europe	327,9	316,6	798,8	218,7	505,5	599,3	848,5	450,9	279,9	307,1	402,2	689,8	736,9	1216,5
EU	314,6	309,4	259,4	214,3	498,4	562,4	804,3	421,6	265,6	285,2	368,0	609,3	640,5	1142,2
Japan	4,6	9,2	6,3	7,8	2,8	96,5	22,5	25,1	32,3	28,8	31,0	45,8	50,3	73,5
USA	169,7	74,5	53,1	135,8	104,8	236,7	232,8	125,9	134,9	129,4	294,9	15,4	221,7	313,8
Other developed countries	37,1	42,6	21,8	41,3	-1,7	111,3	143,7	29,2	36,0	41,8	58,0	-2,1	78,4	88,3
Developing countries	188,3	171,0	180,1	283,6	316,4	413,0	499,7	74,4	49,6	45,0	120,0	117,6	212,3	253,1
Africa	9,0	14,6	18,7	18,0	29,5	45,8	53,0	2,4	0,3	1,2	2,0	2,3	7,8	6,1
Latin America and Caribbean Basin	72,9	57,8	45,9	94,4	76,4	92,9	126,3	21,1	12,1	21,3	28,0	35,8	63,3	52,3
Asia and Oceania	106,4	98,6	115,5	171,2	210,6	274,3	320,5	51,0	37,3	22,5	89,9	79,5	14,1	194,8
Asia	105,9	98,5	115,1	170,3	210,0	272,9	319,3	51,0	37,2	22,5	89,9	79,4	141,1	194,7
Western Asia	3,3	5,5	12,0	20,6	42,6	64,0	71,5	0,9	3,2	-1,9	7,7	12,3	23,2	44,2
Eastern Asia	70,7	67,7	72,7	106,3	116,2	131,9	156,7	39,6	27,6	17,4	62,9	49,8	82,3	102,9
China	41,8	52,7	53,5	60,6	72,4	72,7	83,5	2,0	2,5	2,9	5,5	12,3	21,2	22,5
South Asia	3,9	7,1	5,9	8,1	12,1	25,8	30,6	0,3	1,8	1,6	2,3	3,5	13,4	14,2
South-Eastern Asia	28,0	18,1	24,6	35,2	39,1	51,2	60,5	10,2	4,7	5,3	17,0	13,8	22,2	33,5
Oceania	0,5	0,1	0,4	0,9	0,5	1,4	1,2	0,0	0,0	0,0	0,1	0,1	0,0	0,1
South-Eastern Europe and CIS (countries with transition economies)	7,3	11,3	19,9	30,4	31,0	57,2	85,9	2,0	4,6	10,7	14,1	14,3	23,7	51,2
South-Eastern Europe	1,2	2,2	4,1	3,5	4,8	10,0	11,9	0,1	0,5	0,1	0,4	0,3	0,4	1,4
CIS	6,1	9,1	15,8	26,9	26,1	47,2	74,0	1,9	4,1	10,6	13,8	14,0	23,3	49,9
ROW	734,9	625,2	561,1	717,7	958,7	1411,0	1833,3	707,4	537,4	562,8	920,2	880,8	1323,1	1996,5
For reference: equity contribution in% of global FDI value														
Developed countries	73,4	70,8	64,4	56,2	63,8	66,7	68,1	89,2	89,9	90,1	85,4	85,0	82,2	84,8
Developing countries	25,6	27,4	32,1	39,5	33,0	29,3	27,3	10,5	9,2	8,0	13,0	13,3	16,0	12,7
South-Eastern Europe and CIS (countries with transition economies)	1,0	1,8	3,5	4,2	3,2	4,1	4,7	0,3	0,9	1,9	1,5	1,6	1,8	2,6

*- Yearly average index

Source: [1]

Table 2.

Matrix of FDI inflows and potential of their attraction throughout the world countries (as for 2006)

	High potential of FDI attraction	Low potential of FDI attraction
High potential of FDI attraction	<p>Front runners</p> <p>Azerbaijan, Bahamas, Bahrain, Belgium, Brunei, Darussalam, Bulgaria, Chile, Croatia, Cyprus, Czech Republic, Dominican Republic, Estonia, Hong-Kong (China), Hungary, Island, Israel, , Kazakhstan, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Mongolia, Netherlands, New Zealand, Oman, Panama, Poland, Rumania, Saudi Arabia, Singapore, Slovakia, Sweden, Thailand, Trinidad and Tobago, Tunisia, Ukraine, Arab Emirates, United Kingdom</p>	<p>Below potential</p> <p>Algeria, Argentina, Australia, Austria, Byelorussia, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Ireland, Islam Republic of Iran, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Norway, Portugal, Qatar, Republic of Korea, Russian Federation, Slovenia, Spain, Switzerland, Taiwan (China), united States, Bolivarian Republic of Venezuela</p>
Low potential of FDI attraction	<p>Above potential</p> <p>Albania, Armenia, Botswana, Columbia, Congo, Costa Rica, Egypt, Ethiopia, Gambia, Georgia, Guinea, Ghana, Honduras, Jamaica, Kyrgyzstan, Lebanon, Moldova, Namibia, Nicaragua, Nigeria, Peru, Sierra Leone, Sudan, Tajikistan, Macedonia, Togo ,Uganda Tanzania , Uruguay, Vietnam , and Zambia</p>	<p>Under performers</p> <p>Angola, Bangladesh, Benin, Bolivia, Burkina Faso, Cameroon, Cote d'Ivoire, democratic Republic of Congo, Ecuador, Salvador, Gabon, Ghana, Guatemala, Mali, Morocco, Mozambique, Myanma, Nepal, Niger, Pakistan, Papua New Guinea, Paraguay, Philippines, Rwanda, Senegal , South Africa, Sri Lanka, Supinam, Arab Republic of Syria, Turkey, Uzbekistan, Yemen, and Zimbabwe</p>

Table 3

Rating of global cities (after P. Taylor)

Categories of global cities		Cities
α (Alfa) – leaders	12	London, New-York, Paris, Tokyo
	10	Hong-Kong, Los Angeles, Milan, Singapore, Chicago, Frankfurt on Main
β (Beta) – Main (Principal)	9	San Francisco, Sidney, Toronto, Zurich
	8	Brussels, Madrid, Mexico City, Sao Paolo
	7	Moscow, Seoul
γ (Gamma) – Second-rate	6	Amsterdam, Boston, Washington, Caracas, Dallas, Djakarta, Dusseldorf, Geneva, Johannesburg, Melbourne, Osaka, Prague, Santiago, Taipei, Huston
	5	Bangkok, Warsaw, Montreal, Peking, Rome, Stockholm
	4	Atlanta, Barcelona, Berlin, Budapest, Buenos Eyras, Copenhagen, Hamburg, Istanbul, Kuala Lumpur, Manila, Miami, Minneapolis, Munich, Shanghai
D – under formation	3	Athens, Vienna, Dublin, Luxembourg, Lyon, Mumbai (Bombay), New Deli, Rio de Janeiro, Tel-Aviv, Philadelphia, Helsinki
	2	Abu-Dhabi, Alma-Ata, Birmingham, Bogotá, Bratislava, Brisbane, Bucharest, Cairo, Cleveland, Cologne, Detroit, Dubai, Ho Chi Minh, Kyiv, Lima, Lisbon, Manchester, Montevideo, Oslo, Rotterdam, Stuttgart, Hague, Vancouver
	1	Adelaide, Antwerp, Baltimore, Bangalore, Bogotá, Brasilia, Calgary, Cape town, Columbus, Dresden, Edinburgh, Genoa, Glasgow, Guangzhou, Hanoi, Kansas, Leeds, Lille, Marseilles, Richmond, St-Petersburg, Tashkent, Teheran, Turin, Utrecht

Source: [8; 14].

In the conditions of the development of the globalization processes and of transnationalisation the evaluations and ratings of economic capacity and managerial role of the global cities are closely connected with the location of the headquarters of the biggest TNCs. The yearly ranging of big TNCs made by Fortune journal, in particular, is greatly varying, specifically because of making alliances, companies' merges and acquisitions depending upon the world market

conditions, etc. Nevertheless, no matter how the composition of big TNCs change, the concentration of their headquarters in global centers in general remains rather standing.

Having the tremendous economic potential the global cities are the key foci not only of national territories, but also of the world economy on the whole, which through the net TNC structures could control the entire global economy. «The command staff» of those centers is rather limited and conservative, though recently it tends to expand its list composition and geography at the account of new dynamically growing cities.

TNC and FDI processes

As it was noted above, TNCs made a significant influence on the capital mobility growth as a production factor (see table 4).

Alongside with the introduction and development of new methods and forms for running TNC business, the large-scale base of technologies for entering foreign markets have been created. The latter could be systematized by three major criteria, namely: scope of investments (from sales department formation to organization of complete production cycle); type of partnership (from partnership with local bodies to complete owning the investment object); ownership right (from minor share in the capital of invested object to 100% of its ownership) (see fig. 3).

Proceeding from the analysis of the named FDI we can formulate the following types of approaches to international business after the criterion of the operations proceeded. (see fig. 4).

The development of TNCs' international activity also influenced the technique of performing those operations, which brought about the preconditions for the formation of new organization models of their structures. The latter should be viewed not like something that had been occurred but like the trend of the development of capital internationalization process. (see table 5).

In connection with the above mentioned processes, the typology of FDI corporate agreements has expanded. For now all FDI corporate agreements could be described after the following criteria: forms of cooperation; participation in capital / with no participation; contract limits; conditions for resources and rights transfers; transfer methods; typical methods for rewards.

While generalizing all forms, types, etc. of FDI making, the latter could be systematized in the following way.

Table 4.

Some FDI indications and figures of international production, 1982–2007

Indication	Value in current price, \$ bln.				Yearly increment of growth, %						
	1982	1990	2006	2007	1986- 1990	1991- 1995	1996- 2000	2004	2005	2006	2007
FDI inflow	58	207	1411	1833	23,6	22,1	39,9	27,9	33,6	47,2	29,9
FDI outflow	27	239	1323	1997	25,9	16,5	36,1	63,5	-4,3	50,2	50,9
Total value of in-ward FDI	789	1941	12470	15211	15,1	8,6	16,1	17,3	6,2	22,5	22,0
Total value of out-ward FDI	579	1785	12756	15602	18,1	10,6	17,2	16,4	3,9	20,4	22,3
Income from in-ward FDI	44	74	950	1128	10,2	35,3	13,1	31,3	31,1	24,3	18,7
Income from out-ward FDI	46	120	1038	1220	18,7	20,2	10,2	42,4	27,4	17,1	17,5
Cross-border Z &E	...	200	1118	1637	26,6	19,5	51,5	37,6	64,2	20,3	46,4
Sales volume of foreign subsidiaries	2741	6126	25844	31197	19,3	8,8	8,4	15,0	1,8	22,2	20,7
Gross production of foreign subsidiaries	676	1501	5049	6029	17,0	6,7	7,3	15,9	5,9	21,2	19,4
Aggregate assets of foreign subsidiaries	2206	6036	55818	68716	17,7	13,7	19,3	-1,0	20,6	18,6	23,1
Exports of foreign subsidiaries	688	1523	4950	5714	21,7	8,4	3,9	21,2	12,8	15,2	15,4
Number of employees in foreign subsidiaries	21524	25103	70003	81615	5,3	5,5	11,5	3,7	4,9	21,6	16,6
<i>For reference</i>											
GDP (in current prices)	12083	22163	48925	54568	9,4	5,9	1,3	12,6	8,3	8,3	11,5
Gross investments in stock capital	2798	5102	10922	12356	10,0	5,4	1,1	15,2	12,5	10,9	13,1
Receipts in kind of royalty and license payments	9	29	142	164	21,1	14,6	8,1	23,7	10,6	10,5	15,4
Export of goods and non-factor services	2395	4417	14848	17138	11,6	7,9	3,8	21,2	12,8	15,2	15,4

Source: [1].

Figure 3.

Foreign Direct TNC Investments

Investment scope		sales department							
		warehousing							
		packing arrangement							
		complete production cycle							
Type of partnership	full ownership	partnership within TNC	private local partner	partnership with local organs	partnership with local organs of power				
	big share in capital								
Ownership right	equal partnership								
	minor share in capital								

Figure 4.

Types of approaches to making business by international companies

<p><i>Coordination of some types of activity in several countries concurrently (logistic approach)</i></p> <p><i>Coordination of the activity aimed at prolonging the chain of VAT</i></p> <p><i>Coordination of a great number of operations / activity in several countries</i></p>	Introduction of export/import	Multinational trader
	Introduction of geographic business focusing	Introduction of global business focusing
	<i>minor</i>	<i>significant</i>
<i>Number of countries where company runs business</i>		

Table 5

Characteristic features of ideal typical organizational TNC model

Characteristic features	Organizational model			
	Coordinated federation	Decentralized federation	Centralized strategy of focal points	Integrated net
1. Configuration of values and qualities	Centralized, decentralized, others	Decentralized and independent within national scopes	Centralized and oriented at world market	Geographically scattered, independent and specialized
2. Role of foreign subsidiary	Adaptation and use of competencies of parent body	Eduction and use of local market resources	Strategy reformation of parent body	Differentiated contribution of national subdivisions into integrated international activity
3. Development and spreading of knowledge	Acquiring of knowledge in a parent body and its application for the development of foreign subsidiaries	Eduction and preservation of knowledge in every subdivision	Eduction and preservation of knowledge in parent body	Joint acquiring and application of knowledge

Source: [6; 157].

The forms of non-stock FDI are getting ever more widespread. They include intermediate investments, subcontracts, agreements on management (in Marx' view «management in its intension is of dubious character: on the one hand, there is a social process of labor for manufacturing product, and on the other – the process of capital growth [7; 343], franchising, licensing, and common use of products».

It is worth noting, that due to the TNC (specifically American) efforts directed at the development and organization of global production, the methods of establishing foreign corporate subsidiaries had been changed. Thus, while in the 80-s mainly the preference was given to creation of new subsidiaries, in late 90-s a new trend was clearly defined implying, the increase of the role of international merges and acquisitions of foreign companies (see fig. 6).

Figure 5.

FDI Classification

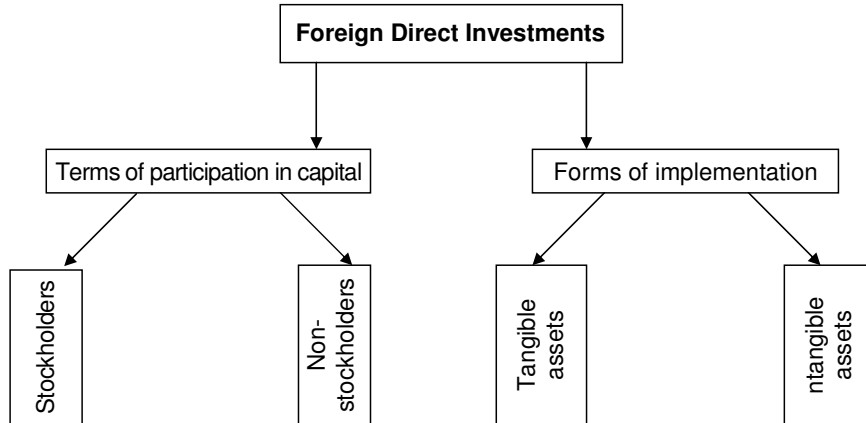
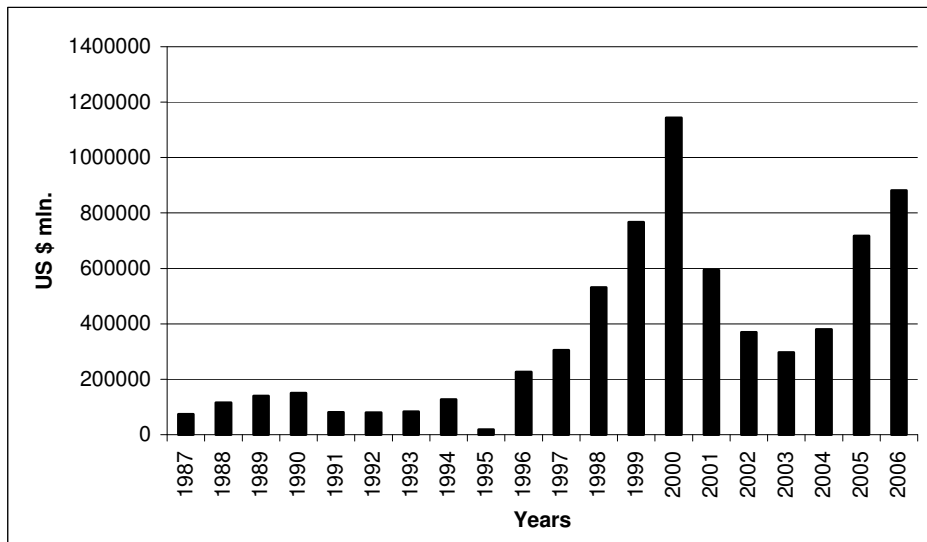


Figure 6.

Mergers and acquisitions in global scope



The increased topicality of that strategy was conditioned by the fact that the final reasons for merges and acquisitions were the acceleration of scientific and technical progress, globalization of world markets and opening national markets, intensification of international competition, new opportunities for sale, enhanced effects on certain markets, improved performance efficiency on the base of synergy (the effect of performance efficiency of combined resources exceeding in its force that of the major sum of results of separate components), enlargement of the operations scales, reduction of costs, improvement of management methods, risk diversification, and guarantee of financial interests. Also certain role belongs to personal (behavioral) motives of management and owners.

The TNCs' role grows in the formation of efficient favorable infrastructure as one of the key factors of FDI attraction, specifically in the developing countries. The most applied forms for FD investing are the following: management and leasing; privatization, setting of new enterprises; concession.

When a decade or two ago the main players in the world market were the TNCs of the developed countries, today the TNCs from new industrial countries are tending to activate their efforts. The significance of TNCs in international manufacturing, likewise in other areas is continuously growing. The expanded areas of their own activities allows TNCs to have the following advantages: TNCs employ in their interests not only natural and human resources, but also scientific and technical potential of the recipient countries; TNCs penetrate on the markets of the third countries and become «natives» avoiding customs barriers of the recipient countries; having the subsidiaries and daughter companies in different countries TNCs overcome the limitedness of domestic markets in the countries of location; TNCs expand the size of the enterprises and scopes of production up to the profitable measure; etc.

Transnational companies get advantages as a result of benefits following from different economic state of the countries of placement of their capital. Having located subsidiaries and daughter companies in other countries, TNCs get the following opportunities: to get advantages while locating their manufactures in the countries with cheap raw materials and low rates of wages; to plan and yield profits in different countries depending upon the taxation rate and tax incomes; to adapt their production schemes and the sales systems to specific conditions of national markets in different countries; to pursue the policy of the accounting of the daughter companies and subsidiaries' operations, that is beneficial for central company, etc.

It is feasible to have the notion introduced by A. Subbotin of «the boundaries of global companies' market», that enables to rationally and pragmatically view the problem of socio-economic development of world community. The boundaries of global companies' market imply the maximum volume of sales possible (available) in accordance with purchasing powers of the consumers of goods and services. A. Subbotin determined the global companies to be the carriers of boundaries since they dominate on the markets, and they formulate na-

tional decisions on political and socio-economic tasks, that are of global scope [10; 75].

Place of Ukraine in World Flows of Real Capital

The foreign direct investments as extra source for financing the structural reformation of Ukrainian economy have not yet played a significant role, though the accrued value of investments in late 2006 grew by 5.15 times compared to 2000.

As we see in fig. 7 a significant growth of foreign direct investments is observed inward the economy of Ukraine as against its outward. Thus, in 1995 the ratio of direct investments outward to inward Ukraine made 4.2%, while at the beginning of 2007 that ratio decreased to 1.05%.

Figure 7.

Foreign Direct Investments inward and outward Ukrainian Economy in 1995–2007

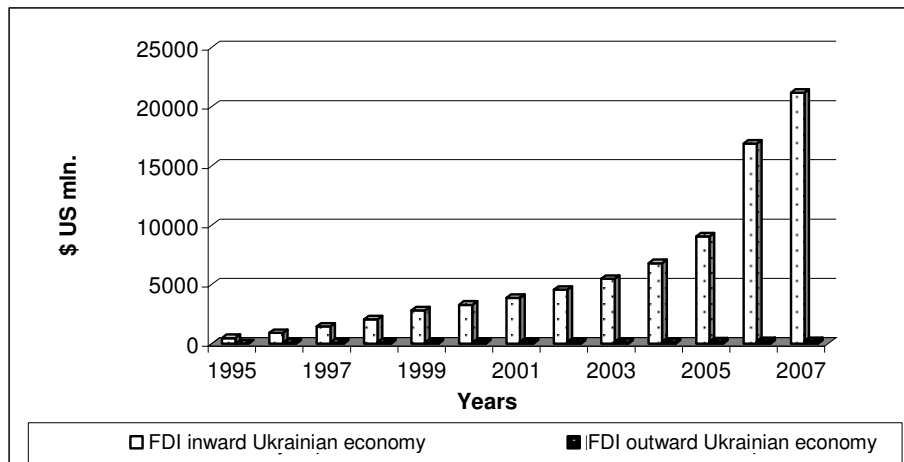
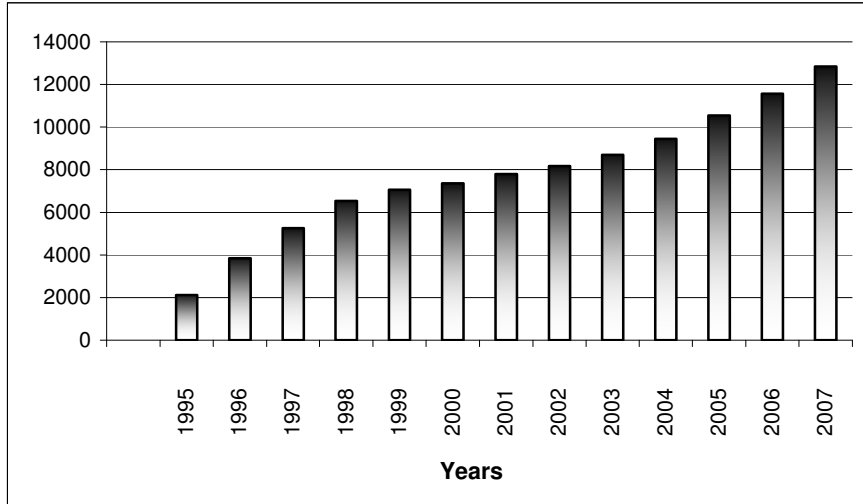


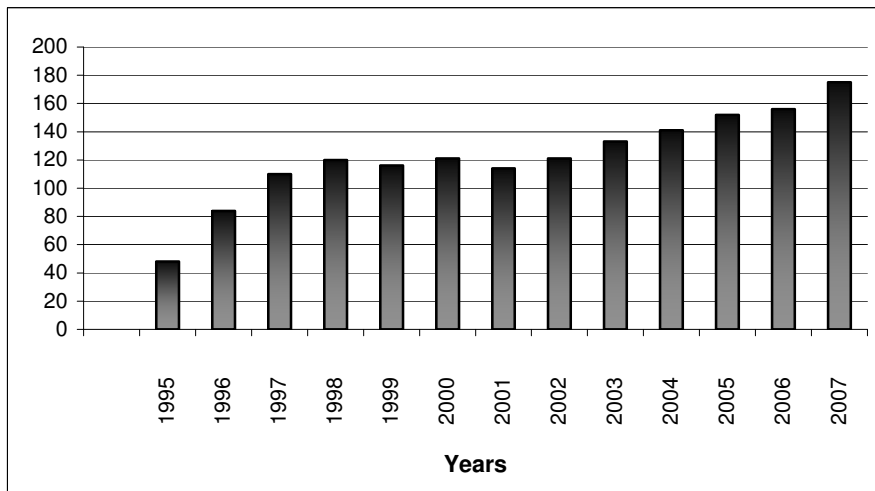
Figure 8.

Number of enterprises that took part in FDI flows in 1995–2007

A. Number of enterprises with inward FDI in 1995–2007



B. Number of enterprises which invested into economies of world countries in 1995–2007



Opposite the trends illustrated at fig.8a, the number of enterprises that made direct investments into world economies, increased much slower than those which obtained FDI (see fig.8b).

With regards to FDI distribution, the main role in direct attraction of investments into regions belongs to the regions themselves. Their investment attractiveness is determined by the systems of both objective and subjective factors. The objective factors include socio-economic peculiarities of regions' investment attractiveness, and main directions of structural transformation of their economies. Investors' preferences are industrially developed and economically advantageous regions. While subjective factors are directly connected with behavior of local powers, aimed at the creation of favorable investment climate for attraction of foreign investments into the economy of the region. In addition, the local authorities on regional level should define the priority areas and branches for investing; also they have to facilitate decrease of external risks and bureaucratic obstacles for the development of joint ventures. Provision of foreign investors with true information on entrepreneurship opportunities and risks in the regions is also very important.

The regions that in 1995 were leading in a number of enterprises which obtained FDI were the following: Dnipropetrovs'k (166), Donets'k (142), Lviv (358), Odessa (307) regions, and Kyiv city (420). Dnipropetrovs'k region remained the leader in a number of enterprises that obtained FDI in 1995 through 2006 (see fig.9). As for 2007 the list of Ukrainian regions somehow changed after the named indication. Thus, in addition to Dnipropetrovs'k region the list of leaders included Zakarpatska (Transcarpathian), Lviv, Odessa regions and the city of Kyiv.

The regions with the less value of FDI were the following: Vinnytsya (13), Zhytomyr (5), Kirovohrad (11), Kherson (5) regions, and the city of Sevastopol (10).

In 2007 the regions with the lest foreign direct investments also changed, namely: Kirovohrad (78), Luhans'k (129), Rivne (133), Chernihiv (69), and Sevastopol city (10). It is worth noting, that the quantitative indication respective the enterprises which received FDI does not take into account its qualitative matter, i.e. the volume of investments into the given regions.

The leading regions in a number of enterprises that obtained FDI are mainly the leaders in a number of enterprises that invested themselves into the economies of world countries (see fig.10).

The five regions that became the leaders in volumes of attracted investments as for 2007 were Dnipropetrovs'k (US \$ 2331.9 mln.), Donets'k (US \$ 837.1 mln.), Kyiv (US \$ 879.0 mln.), Kharkiv (US \$ 1015.4 mln.) regions, and Kyiv city (US \$ 5538.2 mln.).

Figure 9.

Regions – leaders in a number of enterprises that obtained FDI

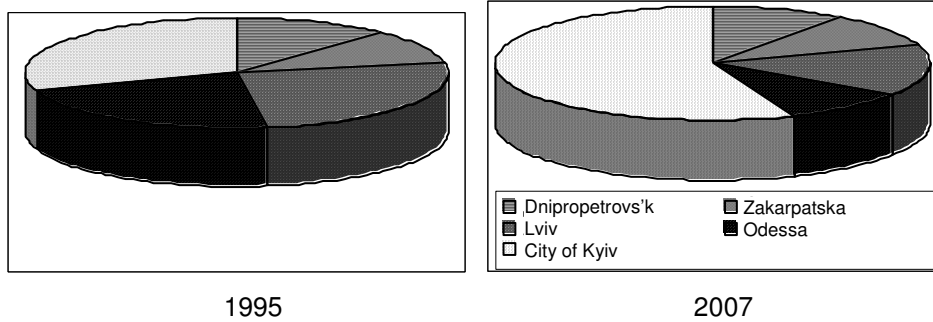
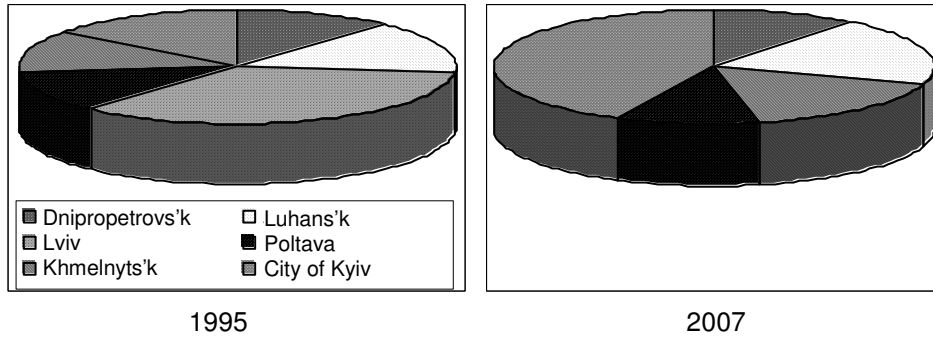


Figure 10.

Regions-leaders in a number of enterprises that made direct investments into the economies of the world countries



As for 1995 the five leading regions included Dnipropetrovs'k (US \$ 43.4 mln.), Donetsk (US \$ 60.7 mln.), Lviv (US \$ 26.9 mln.), Odessa (US \$ 59.6 mln.) and the city of Kyiv (US \$ 120.7 mln.). The review of the Ukrainian regions respective FDI attraction shows, that the FDI flows are channeled into industrially developed regions (Dnipropetrovs'k), as well as the regions with transnational integration potentials (for example, Donetsk, Kharkiv, Odessa, Lviv, and Transcarpathian regions) are tended to be invested. The leader in attraction FDI is Kyiv city. Channeling of rather great flows into Kyiv can be explained by its developed infrastructure, development of logistic nets, high level in quantity and quality of labor supply.

Consequently, we can rate the Ukrainian regions in the context of attracted volumes of direct foreign investments (see table 6).

Table 6.

Rating of Ukrainian regions in volumes of attracted FDI

Region	1995	2000	2007
Autonomous Republic of Crimea	13	8	8
Vinnitsya	26	26	23
Volyns'k	24	15	13
Dnipropetrovs'k	4	7	2
Donets'k	2	3	5
Zhytomyr	20	20	17
Transcarpathia	9	12	11
Zaporizhzhya	14	4	7
Ivano- Frankivs'k	10	16	14
Kyiv	8	2	4
Kirovohrad	16	23	25
Luhans'k	7	19	12
Lviv	5	9	9
Mykolayiv	23	17	22
Odessa	3	6	6
Poltava	11	5	10
Rivne	22	14	19
Sumy	18	18	15
Ternopil	12	22	26
Kharkiv	21	11	3
Kherson	27	21	20
Khmelnys'k	17	25	21
Cherkasy	6	10	18
Chernivtsi	19	27	27
Chernihiv	15	13	24
Kyiv city	1	1	1
Sevastopol city	25	24	16

The most attractive for foreign investors is Kyiv city rating the first position during the period of 1995–2007. The regions which became more attractive for foreign investors compared to 1995, and show the increased FDI are Volyns'k (24th rating position in 1995, and 13th rating position in 2007, accordingly), Kharkiv (21st rating position in 1995, and 3d – in 2007) regions, and Sevastopol

city (25th rating position in 1995, and 16th – in 2007. The reverse trend is observed in Kirovohrad (16th and 25th rating positions, in 1995 and 2007, respectively), Ternopil (12th and 26th rating positions in 1995 and 2007), and Chernihiv (15th rating position in 1995, and 24th – in 2007) regions.

It is worthy of note, that the regions leading in the volumes of attracted foreign direct investments also take leading positions in outward direct investments, which is illustrated in fig. 11.

As we see in fig. 11, the essential regional disproportions occur in the process of foreign investing. Specifically, it is very illustrative from the view that most of investment projects are introduced into the sectors with high ratio of capital turnover, and thus, with rapid recoument and low risks. Primarily, domestic trade and food industry is implied. On the other side, it is just these two sectors which are proportionally represented within the structure of practically all Ukrainian regions, and they do not demand peculiar, specific preconditions in the locality. Thus, we can argue, that regions are competing for capital attraction.

Practically, all the leading regions after their economic structure belong to the industrial group, which signifies that the defining factor of the development of the regions still is formed during the decades of heavy industry domination (at that, the ecological effects of heavy industry on the environment is not taken into account). Odessa and Lviv regions, which factually can be considered the leaders in the south and west of Ukraine, pertain to the group of industrially – agrarian regions. The stability of the composition of the regions-leaders is primarily conditioned by the parameters of the development of the regions (in particular, availability of production, transport, and other infrastructure).

While analyzing the investment attractiveness of Ukraine's regions, there should be taken into account a nuance consisting in the fact, that de-jure foreign capital is registered specifically where the headquarter is located, and the latter is often situated in the capital.

With regards to Ukrainian inward and outward FDI investments, the group of foreign countries that made large direct investments into the economy of our country are Germany, Russian Federation, United Kingdom, United States of America, Austria, and others (see fig. 12).

The lion portion of foreign direct investments made in 1995 and 2007 came from the countries of Europe¹ (1995 – 59.92; 2007 – 65.02%). As it is seen from fig. 13 the FDI from the European countries are tending to grow.

To have a better vision of trends for global countries' participation in inward FDI, those countries were rated and presented in table 7 (see table 7).

¹ Since 2000 the indices on Baltic countries pertain to the group of the European countries.

Figure 11.

Regions-leaders in volumes of outward foreign direct investments in 1995–2007

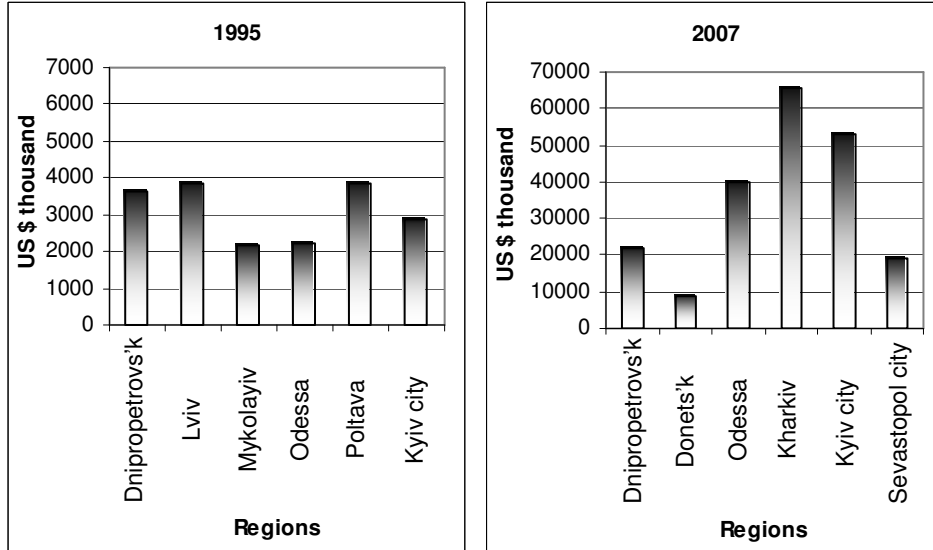


Figure 12.

World countries which made the greatest inward FDI for the period of 1995–2007 years

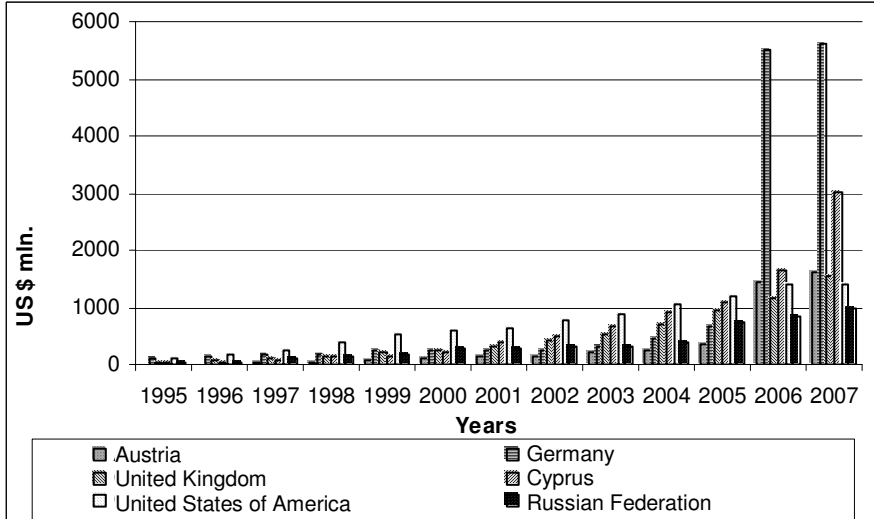


Figure 13.

Share of regions of world countries in FDI flows inward Ukraine in 1995 and 2007

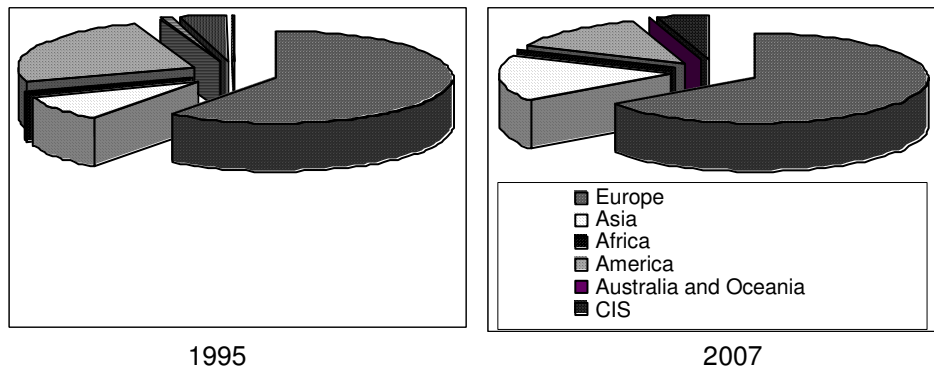


Table 7

Rating of regions of world countries in FDI flows inward Ukraine in 1995 and in 2007

Region	1995	2007
Europe	1	1
Asia	3	2
Africa	6	5
America	2	3
Australia and Oceania	5	6
CIS	4	4
Baltic countries	7	—

As the above table demonstrates, the stable position concerning direct investments into Ukraine is taken by the regions of Europe and Commonwealth of Independent States. The situation respective direct investment processes has essentially changed with the countries of America and Asia as compared to 1995. Thus, the share of American countries in general (total) FDI flows into Ukraine rather fall, but at the same time the foreign direct investment from Asian countries are tended to grow almost twice.

It is of great importance to research the regions which actively made the inward FDI. We will begin this research from the countries of Europe. While characterizing the European countries in Ukraine's inward investments, it is wor-

thy of note that the leaders are the following countries: Austria, Netherlands, Germany, United Kingdom, and France.

The volumes of foreign direct investments from the Asian countries inward Ukrainian economy are sizable, and they were made by Israel, Cyprus, Republic of Korea, Turkey, and Japan. The leader of FDI inward Ukraine was Cyprus. Moreover, since 1997 the firm trend is observed of that country's outward FDI flows growth.

The African countries have the lowest FDI ratios among other regions, and only three countries, namely, Liberia, Mauritius, and Seychelles, greatly contributed.

Foreign direct investments from American countries inward Ukrainian economy were mainly made by the United States of America, Canada, Aruba, and British Virgin Islands. The latter and the United States of America tend to increase the FDI volume inward our country. The lower growth rates are specific to Canadian outward FDI. In 2006 Aruba activated its FDI operations inward Ukraine.

The region of Australia and Oceania is represented by Australia, the Marshall Islands, and New Zealand, which invested significant FDI values into our country.

The most active investor inward our economy is Australia, and though its FDI outflows reached the greatest volumes in 1999, during 2006 they increased.

The last region which we will research is the Commonwealth of Independent States. The greatest FDI inward Ukrainian economy was made by Russian Federation reaching the peak growth in 2004 through 2006. Much more less investments into our state were made by Belarus, Kazakhstan, Moldova, and Uzbekistan.

As of 2007 year the five countries – leaders in direct foreign investments into Ukrainian economy had been created, including Germany, Austria, United Kingdom, Cyprus, and Russian Federation.

Thus, German FDI as of late 1994 made 21% within the total FDI volume inward Ukraine. However, for several following years it rather decreased making in 1999 and 2004 years 7% (though compared to 1995 in 1999 it grew by 2.3 times, in 2004 – by 6.5 times), while in 2005 it amounted to 33% (compared to 1995 it grew by 54.3 times), and in 2006 it made 26.5% (compared to 1995 it grew by 55.5 times).

Another country – fore-runner in FDI inward the economy of our country is Cyprus. With reference to the peculiarities of the analysis of that country's FDI flows, it is worth noting that the status of the country being the offshore zone, a considerable share of its outward investments has been made by Ukrainian investors, who had transferred their capital there, and thus, they could be considered as «conditional» foreign investments. That country's outward FDI flows are highly dynamic. Thus, as compared to 1994 they grew by 105.7 times in 2006,

though their share within the total volume made in 1994 – 6%, in 1999 – 6.4%, in 2004 -12.2%, in 2005 – 10%, and in 2006 – 14%.

Austria as one of five fore-runners countries in 2006 invested in Ukraine by 195 times more compared to 1995 year, and its share in total FDI flows had tended to gradual sustained growth up to 2005 year, making 1.7% in 1994; 3% in 1999; 4% in 2004; 8.5% in 2005, and 8% in 2006.

As a fore-runner country in 2006 the United Kingdom invested inward Ukrainian economy by 46 times more compared to 1995, and its share in total FDI flows amounted to 7% in 1994; 3% in 1999; 10.7% in 2004; 7% in 2005; and 7.4% in 2006.

As for the United States of America, though the FDI grew in 2006 by 14.7 times compared to 1995, the share within the total FDI volumes decreased by more than 3.5 times, and so far that trend has been preserved since 1999. Thus, in 1995 it made 20%; in 1999 – 18%; in 2004 – 13%; in 2005 – 8.2%; and in 2006 – 6.7% .

One more country that finds Ukraine attractive from the FDI view is Russian Federation. The similar to the USA trend is observed here. Though FDI grew as compared to 1995 by 51.4 times, the average share of that country in total volume has been lately tending to decrease, thus making in 1994 – 4%; in 1999- 8.8%; in 2004 – 8%; in 2006 – 5%; and in 2006 – 4.6%.

While analyzing the Ukrainian outward flows of foreign direct investments, we will see that the lion share of the investments in 1995 was channeled to the European countries, and in 2006 – to the Commonwealth of Independent States. The outward FDI flows channeled to the Asian countries have also grown (see fig. 14).

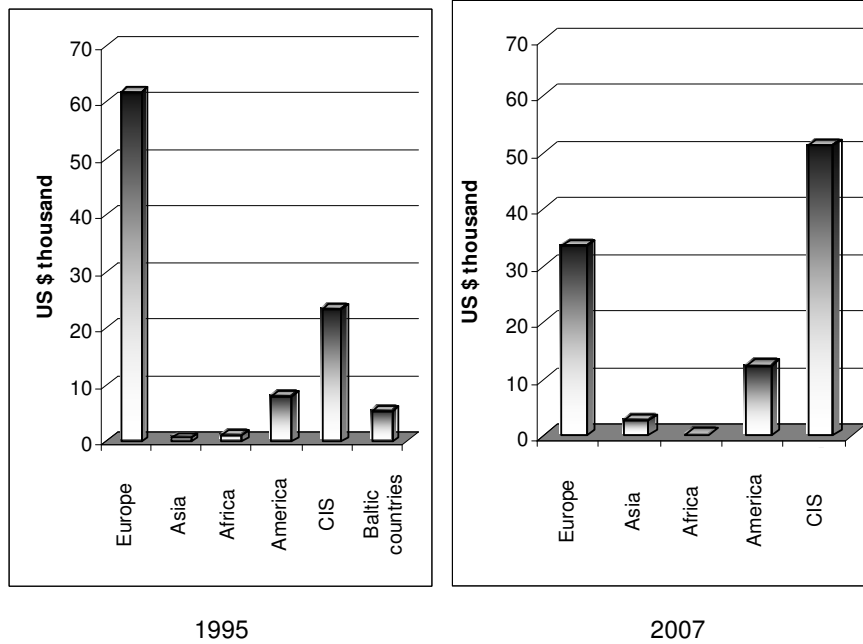
The priorities of Ukrainian investors with respect to the allocation of direct investments in Europe have also changed. Thereby, while in 1995 they regarded Austria, Switzerland, and Hungary as the most attractive countries (and the share of investments of those countries made respectively 5%, 40%, and 10% within the total volumes of FDI), at the beginning of 2007 Ukrainian investors preferred Spain (6%, Poland (11%), and United Kingdom (6%).

With respect to the Asian region, the following trend has been observed: as for 1995 the only country which had received great direct investments was outward Ukrainian and Turkish funds (0.6% of total volume, for comparison, in 2006 it made 0.04%). Since 1995 the Ukrainian investors have been activating their outward allocations in Cyprus, and since 1996 – in Vietnam. Those two countries as for 2007 were the fore-runners for Ukrainian outward FDI.

Though Cyprus and Vietnam pertain to the three countries where the greatest values of outward Ukrainian investments were channeled, it should be noted that the share assigned to those countries has been tending to decrease, in particular, with reference to Vietnam. Thus, in 2006 it made 7.2% (for comparison, in 1999 it was 16.6%), while the share assigned to Cyprus in 2006 amounted to 2.0% (in 1999 – 2.4%).

Figure 14.

Share of world regions in outward Ukrainian FDI flows in 1995 and in 2007



The African countries constitute the minor share of Ukrainian outward FDI, and as for 01.01.2007 the fore-runner countries in attraction of Ukrainian direct investments are Egypt and Seychelles. At that, it is worth noting that the interest to the latter on the side of Ukrainian investors has grown for the two last years. As far as the region of African countries itself has not been very attractive for Ukrainian investors, the share of fore-runner countries in attraction the outward Ukrainian direct investment is minor, making 0.1% within the total volume in Egypt, and about 0.1% – in Seychelles.

As for 1995 the single country where the outward Ukrainian FDI was actively channeled was the United States of America (7.9% in total volume), and as for 2007 the first in that region became Panama (9% within the total volume). The USA share within the total volume of outward Ukrainian direct investments, constituting 2.6% in 2006, has decreased now.

With regards to the countries of the Commonwealth of Independent States, the Russian Federation in 1995 was the fore-runner, and still it preserved its position in 2007.

In general, at the moment the situation with the Ukrainian outward direct investments is far from being optimistic. Primarily, it is conditioned by lack of effective strategy (policy) of FDI attraction.

Consequently, the FDI volumes in global economy are tending to grow and in perspective they can multi-fold exceed the previous indices. It is related to the following:

- globalization processes in world economy have been activating annually, and thus, the number of countries participating in those processes increase;
- at present, a number of regional associations and a number of countries participating in them have been growing;
- the processes of internationalization of production and capital have been activating, at that the key role in those processes belong to transnational companies, likewise other kinds of the organization of activity of economic agents off the countries of their origin.

Unfortunately, the researchers and managers have no perspective vision how to use the globalization advantages avoiding its negative effects. Thus, one of negative effects is the unprecedented stiffening and aggravation of competition. Naturally, the fight of powerful TNCs for preserving their positions on world market could be viewed as positive process of quality improvement of goods and services, of lowering prices and rationalization of manufacturing (production) structure in global scale. The negative side of the problem implies the price that the producers and consumers should pay for international competition which becomes ever more cut-throat. The cost reduction and quality improvement, saying nothing about advertisement and getting into markets need considerable funds.

The world practice showed that foreign direct investments have a series of advantages over other forms of funding and crediting. It should be noted, that the FDI as such is the most reliable source of foreign capital, and for the recipient country it makes the least risks as compared to other forms of crediting, financing, and investing.

For now and in the nearest perspective Ukraine, as a state, will not be able to play the leading role in the distribution process of political and economic influence in the region and throughout the world. Proceeding from the above, it is worth noting, that it is of great importance for Ukraine to find its optimal position and place in world economy to minimize negative effects of financial globalization and to maximize its advantages.

It is not a secret, that investment resources of Ukraine do not provide efficient expansion of reproduction. Deterioration of fixed capital stock in some industries reaches up to 50%, physical facilities at the enterprises are extremely outdated, and most of the working assets are channeled not for the renovation of equipment but for its repair and maintenance in order to support its minimal capacity of producing new values.

Investment resources of corporate bodies are mainly created due to amortization charges. Therefore, the governmental body should take a very specific approach to the development of amortization policy. So far, the state amortiza-

tion policy does not meet the modern requirements and is desperately imperfect. The amortization funds are not spent for the reproduction of fixed capital stock, but for consuming («guzzling away»).

Therefore, the actions of vital importance are the following: to create (and promote the established) tech – parks, tech- incubators, innovation productions, primarily in the priority industries.

It is essential for Ukraine to introduce the effective strategy of attraction and utilization of FDI with obligatory diversification of the creation of investment environment with allowance for peculiarities of our country's regions.

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