



European Integration

Tetyana MISYAC'

**DYNAMICS AND OUTSTANDING
CHARACTERISTICS OF INVESTMENT
COLLABORATION OF UKRAINE
AND EUROPEAN UNION IN CONTEXT
OF ECONOMIC CRISIS**

Abstract

The analysis of trade and economic collaboration in the investment sphere between Ukraine and countries of European Union during 1999–2009 on a background a world financial-economic crisis is done.

Key words:

Direct foreign investments, economic crisis, structure of investments, European investing.

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Entry of globalization and integration processes, predetermining growth of openness of economies and diminishing of differences in the process of business conduct, stimulating the revival of investment activity of the countries, create additional pre-conditions for activation of collaboration in investment sphere.

Research of features of the effective use of all possibilities of economic collaboration between Ukraine and EU in the field of investment activity should be examined as an important constituent of efforts for the improvement of facilities of realization of economic reforms in Ukraine.

As foreign investments are appered to be the indicator of existence of world economic space, obviously, the investment collaboration between Ukraine and EU could not avoid influence of transformation processes of modern world economy, including world recession, as a result of world crisis **which affects meaningfulness and actuality of researched problematics.**

Analysis of the last researches and publications. It should be noted that the problem of investment collaboration between Ukraine and EU is widely discussed in scientific works of world leading scientists and Ukrainian ones. Among them we can note researches of Burakovskyy I. V., Grytsienko I. A., Veselovskyy A., Semynozhenko V. P, Svenchytski M., Movchan I., Kharlamova G. O., and others.

The **purpose** of the article is determination of essence and features of investment collaboration between Ukraine and the European Union on a background a world financial-economic crisis.

International crisis, which quickly spread through the world in autumn in 2008 stopped a cycle of growth of Ukraine and many other countries with developing economies. Diminishing of risk propensity and falling of cost of assets and prices on commodities deprived the world markets of liquidity by freezing vitally the most important segments of international financial mediation. In particular, the market of Ukraine ran into substantial reduction of trading in commodities and services and influence on the flows of foreign capital from the countries of EU. A financial crisis resulted as the fall-off of flows of foreign capital in a country, while the external obligations of country remained to be high, that stipulated the outflow of capital.

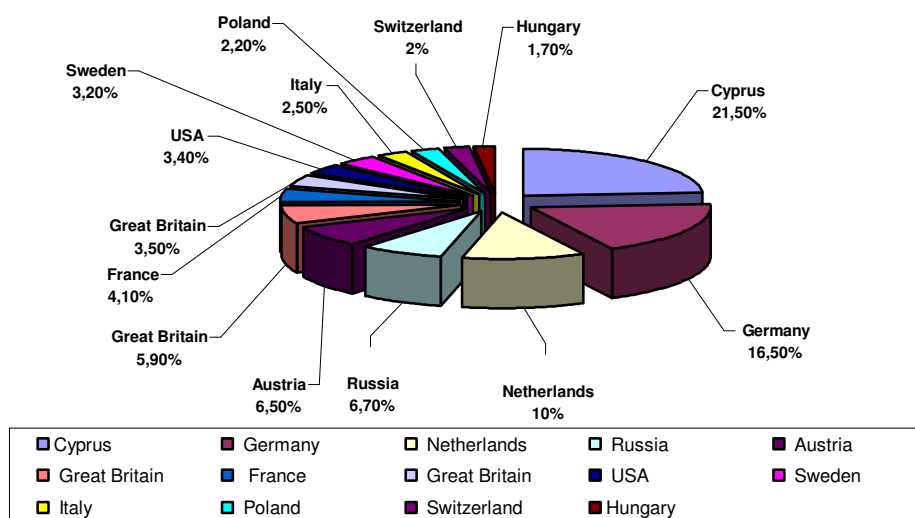
Generally, European Union remains a key foreign investor in Ukraine; its part in the general volume of direct foreign investments to Ukraine in 2009 year during sharpening of crisis remained almost unchanged in comparison to 2008 year and was 78,3 % in January 1, 2010.

In accordance with information of State Committee of Statistics , in 2009 general volume of direct foreign investments in economy of our country, which

came from 125 countries attained level of 40026,8 millions of USD, from which 31350,5 millions of USD came from the countries of EU (pic. 1).

Picture 1

**Distributing of foreign direct investments to Ukraine
by basic countries-investors (in % to the general volume) in 2009**



However, volumes of flows of FDI for the first three quarters of 2009 were half less of the amount of last year's indexes, and the general volume of foreign investments in 2009 shortened on 48,4 % in comparison to 2008 [1].

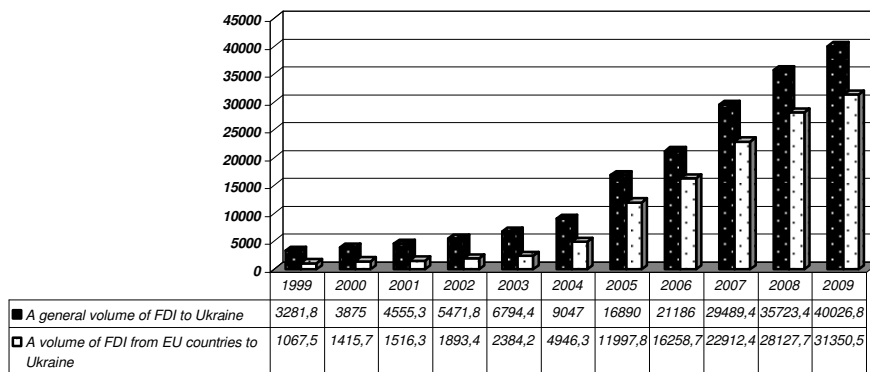
Thus, dynamics of part of FDI from the EU countries in gross volume during the period 1999–2009 on the background the general entering of FDI into Ukraine, testifies that EU is the biggest donor of Ukrainian economy (pic. 2).

On the basis of the all previous information during 1999–2009 there is a clear tendency to the annual increase of volume of foreign investments from the EU countries. As, if by the end of 1999 only three countries of EU had investments into Ukrainian economy by a sum over 100 millions of USD: Germany — \$ 165,9 millions, Netherlands -\$160,2 millions, Great Britain, – \$ 130,9 millions, being 22,1 % of all foreign investments into Ukraine; already in 2005 investments

from the EU countries exceeded 50 %, in fact in comparison to 2004 in the structure of FDI Russia [2] led EU countries by 01.01.2010 its investments attained almost 80 %.

Picture 2

Dynamics of flows of direct foreign investments from the EU countries to Ukraine in 1999–2009, millions of USD



Accordingly analyzed period, growth of investments rates mostly increased in 2005 and 2007, where the positive dynamics of economic increase was defined by boomlets on foreign markets and also by support of high rates of the real increase of profits of population and generally investments in to the fixed assets. In 2009, during the peak of world financial crisis, unlikely as trading of commodities and services, where the combined commodity turnover of Ukraine and EU went down twice the receipt of investments from the EU countries went down only on 21,7 %.

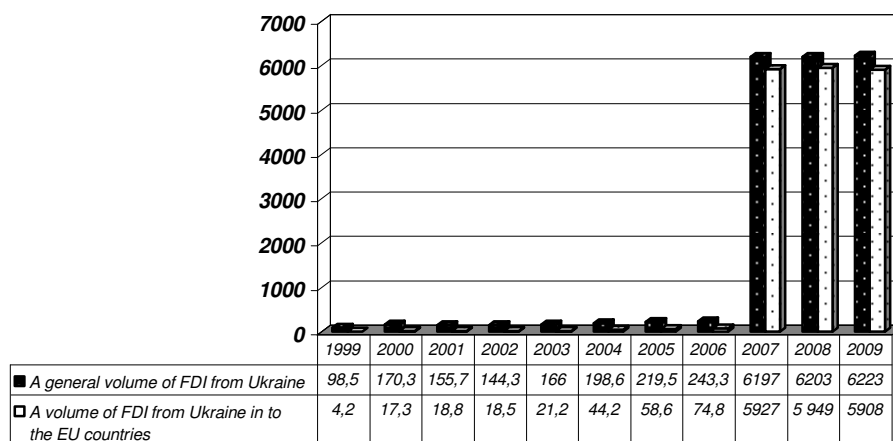
In this context researches of the Ukrainian-European trading relations in an investment sphere will analyse the volumes of investments from Ukraine in to the economy of EU countries, that during a crisis in 2009 shortened on 3,1 % comparatively with 2008 (pic. 3)

On the whole dynamics of volume of direct foreign investments from Ukraine in to the EU countries disproportionate enough, that is explained by economic cycles. By the 1999–2006 foreign investments in the economy of EU coun-

tries grew stably, beginning from 2007 there is a sharp increase of investment from Ukraine on the whole, including. from Ukraine in the EU economy, so the outflow of capital began. Such tendency was actual during 2008. In 2009 crisis year comparatively with 2008 the volume of investments shortened on 5,1 %, that is explained by worsening of investment climate in Ukraine.

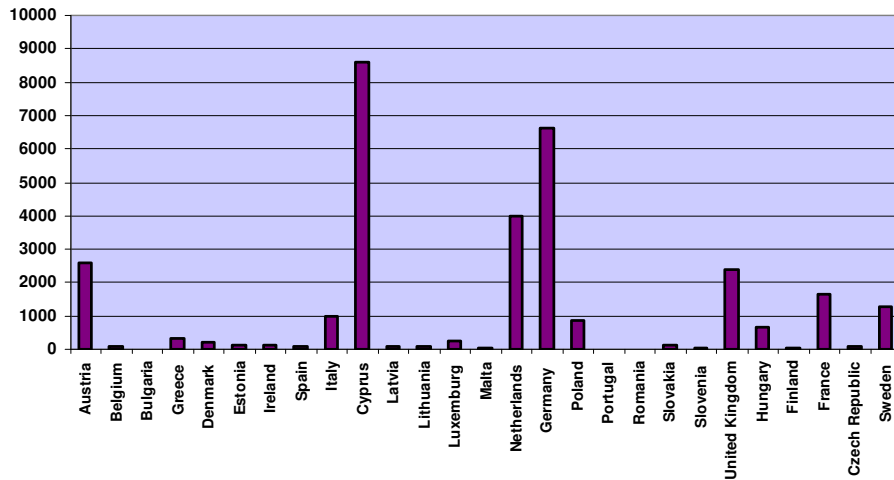
Picture 3

Dynamics of volume of foreign direct investments from Ukraine in the EU countries in 1999–2009, millions of USD



Consequently, during the world financial-economic crisis of end of 2008 and in 2009 European Union remained a key foreign investor in Ukraine. Although direct investments from Ukraine in 2009 are carried out to 51 country of the world, countries-leaders, also were unchanging: it is EU countries such as are Cyprus (8593,2 mln. USD – 27,4 % general volume of investments from the EU countries), Germany (6613,0 mln. USD. -21,1 %), Austria (2604,1 mln. USD – 8,3 %), Great Britain (2375,9 mln. USD – 7,6 %) and Netherlands (4002,0 mln. USD – 12,8 %) [3]. Their part in the general volume of FDI to Ukraine in 2009 was 77,2 % (pic. 4).

Picture 4

Direct foreign investments to Ukraine from the EU countries during 2009, the millions of USD

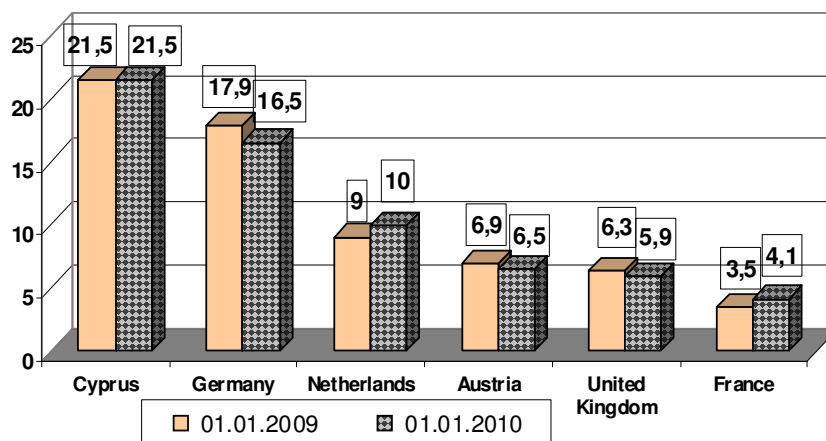
However some redistribution of regional pattern of FDI took place from EU. Yes, comparatively with the volumes of FDI before the crisis (in condition on October, 1, 2008) reduction of volumes of FDI took place from Germany – its part in the general volume of FDI in Ukraine on 01.01.2010 diminished to 16,5 % from 17,9 %. For the first two quarters of 2009 part of Cyprus diminished to 21,3 %. To our opinion, Cyprus, as an offshore area, probably was used for the outflow of capital from our country in the period of financial crisis. FDI inflow from Netherlands and their part in the general volume of FDI of a country vice versa grew up to 10,0 % (pic. 5).

Talking about Austria and Great Britain, the volumes of FDI from these countries, as a chart shows, did not almost change, and their relative role in the general volume of FDI reduced to 6,5 % and to 5,9 %, accordingly, by growth of part of FDI from Netherlands and other countries in the same time [4].

The biggest volumes of investments from Ukraine in to the EU countries in 2009 are directed to Cyprus 5778,5 millions of USD – 97,8 % general volume of investments in the countries of the second and third places after the volumes of investments are occupied by Poland and Latvia, in the economy of which from Ukraine flowed accordingly 49,4 millions of USD and 31,9 millions of USD.

Picture 5

Distributing of direct investments to Ukraine on the basis of EU countries-investors (in % to the general volume) for 2008–2009, millions of USD



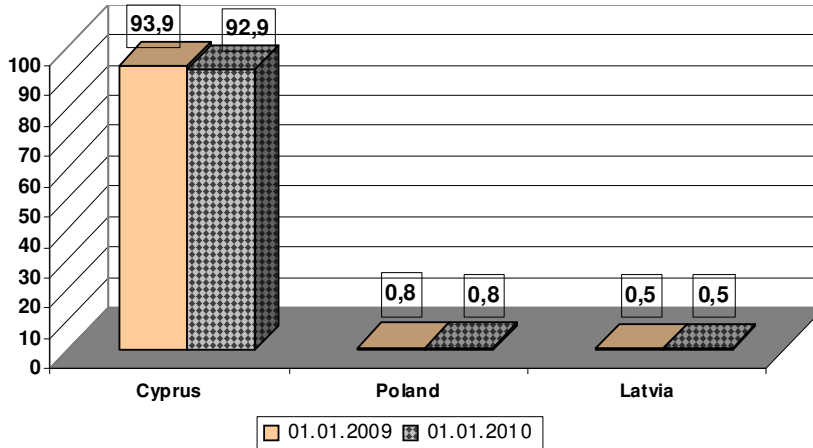
Accordingly to the research, for the year 2009 the volume of percents directed to Cyprus shortened on 10 % and was 92,9 % of the general volume of direct investments from Ukraine. Poland and Latvia occupied the same percentages, as before crisis – 0,8 % and 0,5 % (pic. 6).

On the basis of the conducted research we can see another important tendency of collaboration of Ukraine and EU in investment sphere – change of structure of FDI by the types of economic activity. In comparison to 2008, in 2009 year structure of FDI changed: in some fields it was observed the slow down of flows of FDI, in another fields – inflow changed into an outflow.

During 2009 the volumes of FDI from the EU countries in to the industry and its part reduced in the general volume of FDI – to 22,6 % accordingly, in comparison to 26,1 % during the next year. Basic factors were reductions of FDI in the production of building materials, metallurgical production and engineer, that in those industries which suffered from substantial reduction of internal and/or external demand. The least sensible to the crisis phenomena was chemical and petrochemical industry, the volumes of FDI to which were even increased on 213, 9 millions USD.

Picture 6

Distribution of direct investments from Ukraine on the basis of EU countries-investors (in % to the general volume) during 2008–2009, millions of USD

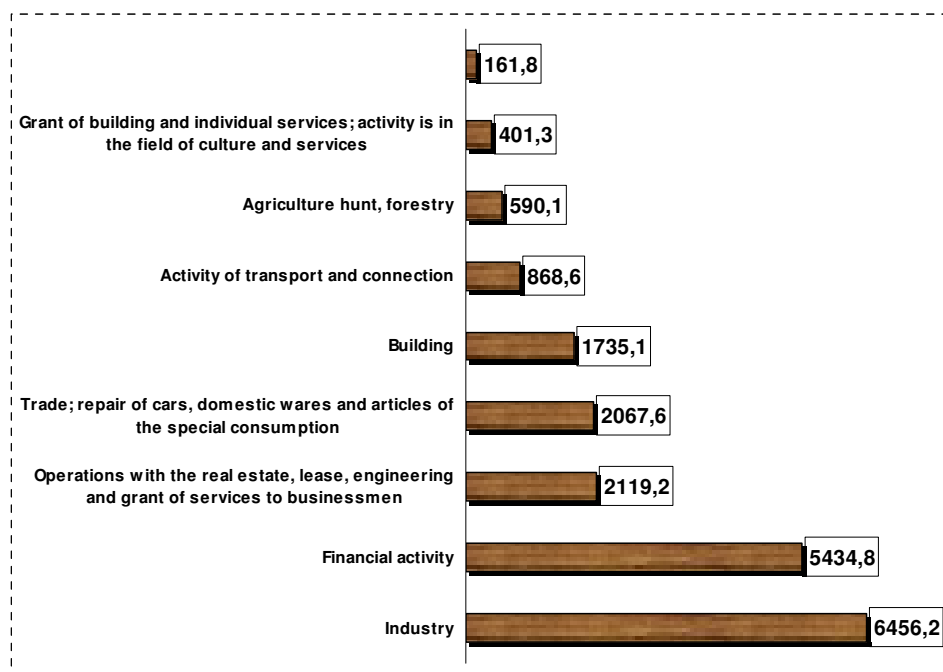


It was also observed the slowdown of inflow of FDI in such types of economic activity as operations with the real estate, lease, engineering and grant of services to businessmen, – from 25,4 % in 2008 to 22,1 %, accordingly, in 2009 and in trade, repair of cars, domestic wares and articles of the personal consumption, – from 10 % in 2008 year to 8,6 % in 2009 [5].

But during all crisis period the volumes of FDI continued to be increased in establishments of financial sector (pic.7). For a year the volumes of FDI in this sector grew on 0,8 milliards of USD and attained in October, 1, 2009 8,1 milliards of USD, and a part of FDI in this sector grew to 21,0 % in a 2009 in comparison to 19,5 % a year ago. Foremost, it is related to implementation of requirement of NBU in relation to a regulation of statutory capital increase of bank institutions. So, some associated companies rendered sponsorship to their subsidiary companies (first of all it touches investors from Austria, Netherlands, France), and German investor the Deutschebank even opened subsidiary establishment on territory of Ukraine. In that time, the volumes of FDI diminished into the financial sector of Ukraine from, for example, Great Britain, that it is foremost related to the size and depth of problems of financial sector of this country [6].

Picture 7

Particular branch structure of distributing of FDI from the countries of EU to Ukraine by the state on 01.01.2008, mln. USD



Taking into account all listed above, it is possible to draw conclusion, that according to the resulted indexes, the volumes of incomes, which get some types of economic activity, do not allow them in a complete measure to satisfy own requirements in investment resources. Foremost, it touches such types of economic activity as agriculture, extractive industry and transport. The productive fixed assets in these types of economic activity do not meet the requirements of structural alteration of economy both by their structure and by their high-quality and age state.

Without any doubts, these types of activity, especially during the financial crisis, needs in attracting credit resources is extremely high, including, from the countries of European Union however part of long-term credits in these types of economic activity in the general volume of the long-term crediting remains at low level.

Being based on this aspect of research will give mind on the substantial differences of structure of FDI after the types of economic activity from Ukraine into the countries of EU.

Overwhelming part of the Ukrainian investments to Cyprus, being 97,8 % general volume of investments in the countries of EU, carried out by the type of economic activity of «operation with the real estate, lease, engineering and grant of services to businessmen», and in nominal expression it was 5826,1 million dollars in 2009, shortened at the same time on 4 % in comparison to 2008. FDI from Ukraine to Poland which occupies the second place on the volume of investments in the countries of EU carried out by the type of economic activity «trade; repair of cars, domestic wares and articles of the personal consumption», and in nominal expression was 45,4 million dollars in 2009, almost not changing, in comparison to 2008. Overwhelming part of the Ukrainian investments from Ukraine to Latvia carried out by the type of economic activity «financial activity», making 31,6 million USD, shortened only on 2 % in comparison to 2008 [7]. At the same time, the financial crisis affected it less than the structure of FDI by the types of economic activity from Ukraine in the countries of EU, unlike the streams of FDI to Ukraine from the countries of EU.

Fast deceleration of inflow of FDI was accompanied with the clean outflow of other capital. After the preliminary estimates of NBU, for nine months of 2009 in Ukraine redemption of middle- and long-term debt (credits and bonds) before foreign borrowers took place, including to the borrowers in EU, to the amount of 15,1 milliards of USD, while the volume of the attracted long-term resources was 11,1 milliards USD. Accordingly, the net outflow of middle- and long-term capital was 4,0 milliards of USD for the first nine months of 2009 in comparison to net inflow at the level of 11,8 milliards of dollars of the USA a year ago [8].

It's worth noting that from reduction of FDI both developing countries and developed ones suffered in 2009. After the estimations of Commission of UNO on Trade and Development, inflow of FDI in the developed countries last year fallen down on 41 %, at that time as FDI got by developing countries reduced on 35 %. Before it volume of FDI in developing economies grew during 6 last years. Generally, the volumes of FDI in the world in 2009 shortened on 39 %. Thus, the global streams of direct foreign investments continued to decline from the 2008 when crisis began. Meanwhile, the experts of specialized commission of UNO mark that in 2010 global FDI, on which the developing states depend especially strongly, can go back to growth so, as far as a world economy will recommence quickly [9].

Because of dynamism of development of statistical data, investment process quickly get older, but we can mark forming of certain tendencies which in high-quality characterize development of the European investing in a country:

- an orientation of joint ventures on producing goods what world markets are practically saturated, and on service business;

- realization of general investment projects, as a rule, on bilateral basis;
- the limited nature of western partners in relation to large investments is predefined by absence of reliable guarantees in relation to their defence;
- activity of small foreign firms oriented to the rapid rotation of small capital or on a benefit from valid occasion operations;
- an unevenness of distribution by industries and regions of Ukraine, their concentration in the industrial centres of Ukraine;
- a large part of property payments of foreign investors in the general volumes of investments, weak use of mechanisms of financial market for investing.

Although, due to an advantageous geographical location, and also high educational level of population, beautiful scientific and technical base and low level of payment of labour, Ukraine is an ideal base for enterprises which are oriented on western and central European markets of sale. However, foreign capital so far is not «in the hurry» to Ukraine. Now, a country has low enough credit ratings and this fact stops many European investors from the investment of money in the economy of Ukraine.

That's why in new terms the task of increase to the attractiveness of the Ukrainian economy becomes again really actual for foreign investors and real competition for investments with the economies of the nearby states. The competition the main instruments of which is real not declarative improvement of investment climate, diminishing of bureaucratic procedures, simplification of regulator-registration requirements and use of forward measures in relation to effective defence of investments.

To our opinion, the defence of investments remains one of most trouble elements of investment climate – sphere in which it was so not succeeded by state bodies to attain some noticeable advancement.

So, for the improvement of investment climate in Ukraine it is necessary:

- simplification of the registration, certification, custom and other procedures decline of bureaucratization of the licensed economic activity. Taking into account a crisis situation and deficit of resources, we should quickly accept amendments to documents of NBU, of State Commission on Securities and other state bodies about reduction of terms of consideration of documents about registration of foreign investments (in particular, direct loans and capital of joint-stock companies increase);
- providing of defence of interests and rights for an investor in courts, increase of efficiency of the judicial system, creation of the control system on acceptance frankly not legal, raider decisions in courts;

- removal of corruption constituent that quite often acquires the forms of the voluntarily-forced payments for development of residential places;
- diminishing of amount of taxes and simplification of their administration, providing of stability of tax law there is a decision of question of tax value-added (if it is needed, then it is necessary to be in time compensated to the exporters; if it impossible to compensate, then it is not needed);
- liberalization of land market, determination of clear and simple procedures of its buying and lease for conducting of economic activity.

Conclusions. On the basis of the all conducted analysis of collaboration between Ukraine and EU in an investment sphere on results of a period of 1999–2009 in the context of world financial-economic crisis it is possible to make such a conclusions:

- So in a period between 1999 and 2003 there is a stable tendency to the gradual growth of volume of foreign investments from the countries of EU to Ukraine. During 2004–2008 the volume of FDI began to grow more rapidly in fact in 2005 investment from the countries of EU began to exceed 50 %. As a result for the last five years FDI to Ukraine from EU grew in several times.
- The dynamics of volumes of FDI from Ukraine into the countries of EU for period 1999–2009 differs somehow: if from 1999 till 2006 there was a gradual tendency of growth, in 2007 there was a sharp jump of ascending diagram of growth of volumes of direct foreign investments from Ukraine on the whole and to the countries of EU. Further in 2007–2008 there was very little increase of volumes of FDI.
- For the period of 2009 on a background the collapse of foreign trade dynamics in Ukraine by all geographical directions, first of all with the countries of EU, an investment sphere had less losses. Namely, the volume of direct investments in the economy of Ukraine from the countries of the European Union went down on 21,7 %. The volume of investments from Ukraine into the economy of countries of the European union went down only on 5,1 % .
- By branches the leaders by bringing in of FDI in 2009 into the economy of Ukraine there were the industry enterprises from the countries of EU – 22,6 %. Basic investors from Ukraine were enterprises which belong to such types of economic activity: operations with the real estate, lease, engineering and grant of services to the businessmen; financial activity; trade, repair of cars, domestic wares and articles of the personal consumption.
- Thus the conducted research of the Ukrainian-European economic collaboration testifies in an investment sphere, that, as well as expected

global economic and financial crisis on a background the last ten years from 1999–2009 resulted in sharp reduction of foreign capital receipts in a country that considerably complicated the contracted payments. In this situation banks with a foreign capital, which present the mainly European bank capital, were able to attract refinancing, while many not financial companies were able to restructure the debts and carry their payment on future periods. For today there is a high degree of vagueness in relation to a depth and duration of the crisis phenomena which are principal reason of the prolonged rolling up of investment activity.

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