

INVESTMENT COOPERATION BETWEEN UKRAINE AND EU COUNTRIES

ІНВЕСТИЦІЙНЕ СПІВРОБІТНИЦТВО УКРАЇНИ ТА КРАЇН ЄС

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The article defines the concept of foreign direct investment and reveals its meaning for Ukraine in the context of the global integration process. It is indicated what attracts a foreign investor in Ukraine. Investors that are important for Ukraine are identified. The European Union is the most important source of investment. It helps create jobs, increase GDP and the national economy as a whole. The geographical structure and volumes of direct foreign investments from the EU countries to Ukraine and direct investments from Ukraine to other countries, which are also an important investment aspect of interaction, are analysed. The greatest obstacles for foreign investors are indicated. They hamper the process of investments in the state. Based on the study, it was concluded that foreign direct investment has a positive impact on the development of the economies of countries in general and Ukraine in particular. The state can potentially be one of the leading countries in attracting investment. The ways to improve the protection of foreign investment in Ukraine for foreign investors with the EU have been proposed.

Key words: foreign direct investment; European Union; integration; volumes; impact; causes of investment slowdown.

У статті визначено поняття прямих іноземних інвестицій і розкрито його значення для України в контексті світових інтеграційних і глобалізаційних процесів. Дана проблема актуальна, бо сьогодні динамічно розвиваються традиційні форми міжнародних зв'язків – торгівля та інвестиційне співробітництво. Українське суспільство, а не лише національна економіка, опинилось у стані загострення та поглиблення кризових явищ. Україні вкрай необхідно продовжувати працювати над ростом економіки, це питання виживання країни і держави. Щоб рости – потрібно розвиватися, для розвитку – необхідне фінансування, інвестиції. Європейський Союз – це найважливіше джерело інвестицій, він допомагає створенню робочих місць, зростанню ВВП та національної економіки в цілому. Указано на те, що значний природний потенціал, кваліфікована робоча сила, великий внутрішній ринок збуту продукції, науково-технічний потенціал та потужна виробнича база приваблюють іноземного інвестора в Україні, і вона потенційно може бути однією з провідних країн за залученням інвестицій. Визначено стратегічно важливі для України інвестори та які панують тенденції залучення капіталу у світі. Проаналізовано географічну структуру та обсяги прямих іноземних інвестицій з країн ЄС в Україну та прямих інвестицій з України до інших країн, які також є важливим інвестиційним аспектом взаємодії. Продемонстровано галузеву структуру прямих іноземних інвестицій з п'яти провідних країн-інвесторів з ЄС. На основі проведеного аналізу встановлено, що найбільш привабливими для іноземних інвесторів у галузевому розрізі залишаються промисловість, фінансова діяльність, торгівля, сфера послуг, ІТ-сектор та операції з нерухомим майном. Зазначено найбільші перешкоди для іноземних інвесторів, які гальмують процес надходження інвестицій в державу, а саме: корупція, нестабільна валюта, воєнний конфлікт, виведення грошей в офшори та мораторій на продаж землі. Обґрунтовано необхідність пошуку нових сучасних підходів до створення сприятливого інвестиційного середовища в економіці України. Запропоновано шляхи підвищення захисту іноземних інвестицій в Україні для іноземних інвесторів з ЄС.

Ключові слова: прямі іноземні інвестиції; Європейський союз; інтеграція; обсяги; вплив; причини гальмування інвестицій.

В статье определено понятие прямых иностранных инвестиций и раскрыто его значение для Украины в контексте мировых интеграционных процессов. Указано на то, что именно привлекает иностранного инвестора в Украине. Определены важные для Украины инвесторы, Европейский Союз – это важней-

ший источник инвестиций, он помогает созданию рабочих мест, росту ВВП и национальной экономики в целом. Проанализированы географическую структуру и объемы прямых иностранных инвестиций из стран ЕС в Украину и прямых инвестиций из Украины в другие страны, которые также являются важным инвестиционным аспектом взаимодействия. Указано наибольшие препятствия для иностранных инвесторов, которые тормозят процесс поступления инвестиций в государство. На основе проведенного исследования сделаны выводы, что прямые иностранные инвестиции оказывают положительное влияние на развитие экономики стран в целом и Украины в частности. Государство потенциально может быть одной из ведущих стран по привлечению инвестиций. Предложены пути повышения защиты иностранных инвестиций в Украину для иностранных инвесторов с ЕС.

Ключевые слова: прямые иностранные инвестиции; Европейский союз; интеграция; объемы; воздействие; причины торможения инвестиций.

Statement of the problem. The European Union is the main influential and trading partner of Ukraine in today's conditions of integration and globalization. It is one of the most important sources of investment that promotes the flow of financial resources into the economy, international experience of corporate governance, and prompts organizations to implement international quality standards, accounting, etc. Foreign direct investment in Ukraine is the best option, which really brings maximum profit while stimulating the development of the domestic market of the country.

Analysis of recent researches and publications. Domestic scholars who investigated the investment cooperation of Ukraine with the EU countries are V. Valdes, M. Denisenko, K. Zvyagina, V. Kossak, M. Makarenko, V. Fedorenko, A. Mayev, and others. The relations between the countries are changing all the time because the world economy is constantly evolving, so it requires new research and analysis.

The purpose of the article is to analyse the investment aspects of the cooperation between Ukraine and the European Union in the context of the global integration process.

Presentation of the main research material. The notion of foreign direct investment involves a type of international investment activity consisting in acquiring a permanent resident of a single country (a direct investor) with a lasting influence on the activities of an enterprise that is a resident of another country (direct investment enterprise).

Foreign direct investments have an important value for the economy of every country, as they allow creating new workplaces, enterprises with foreign investments producing goods and providing services that enhance the gross domestic product of a country. The role of foreign investment is increasing due to the lack of own investment resources, the instability of the economy, and the gradual decline of traditional sectors of the national economy.

Foreign investors in the Ukrainian economy are attracted by:

- Gaining of rapid superprofit, because in comparison with European countries, it is possible to engage cheap labour to the project implementation in Ukraine, and despite this indicator, the labour force is sufficiently qualified in the neces-

sary sphere. In any case, the maximum result will be achieved.

- A big domestic market, which shows the sales of production at the highest possible price, taking into consideration the money spent on the production.

- The possibility of privatization. Foreign investors can privatize their activities in the territory of an existing country.

- Rich and inexpensive resources allow you to spend the minimum amount of cash capital to implement an investment project.

The main trends in attracting investment capital in the world are:

- globalization and internationalization of all investment projects, which in the future allow the project to enter the international level without state interference with such actions;

- investment projects should be aimed at creating favourable conditions where foreign investments can bring income not only to their depositor but also directly to all participants of this.

At present, foreign investments in Ukraine are at the stage of introducing new measures, as the financial crisis has caused a large outflow of foreign funds.

One of the main foreign economic partners of Ukraine is the European Union itself. Investment cooperation of our state with the EU countries is relevant in the current conditions of the development of the integration process. An international investor can offer Ukraine an effective management structure, new technologies, business contacts, and sales markets. As of 01.10.2018, the volume of all foreign direct investment amounts to 31,973.6 million US dollars (as of 10.10.2017 – 39,719.8 million US dollars). The increase for January-June 2018 amounts to 1039.1 million US dollars. As of July 1, 2018, the largest investor countries: Cyprus – 9188.7 million US dollars (28.2%), the Netherlands – 6843.7 million US dollars (21%), Great Britain – 1934.4 million US dollars (5.9%), Germany – 1731.8 million US dollars (5.3%). Table 1 shows the volume of direct investments from the EU countries.

The EU countries are the main donor of foreign direct investment in our country's economy. Cyprus is the leader among the investor countries throughout the study period, both in Ukraine on the

Table 1

**Direct investments from some countries of the world
in the economy of Ukraine in January-September 2018**

	Amount at			
	01.01.2018		01.10.2018	
	million United States dollars	percentages of total	million United States dollars	percentages of total
In total	31 606,4	100,0	31 973,6	100,0
Europe				
Austria	1 038,8	3,3	1 018,8	3,2
Belgium	103,9	0,3	104,7	0,3
Belarus	33,6	0,1	33,5	0,1
Bulgaria	39,9	0,1	41,5	0,1
Great Britain	1 944,4	6,2	2 047,9	6,4
Greece	43,0	0,1	45,3	0,1
Denmark	153,6	0,5	154,0	0,5
Estonia	235,0	0,7	236,3	0,7
Italy	201,6	0,6	234,9	0,7
Lithuania	124,6	0,4	139,7	0,4
Luxembourg	515,8	1,6	489,3	1,5
Malta	59,3	0,2	59,4	0,2
Monaco	52,3	0,2	43,4	0,1
Netherlands	6 395,0	20,2	6 452,7	20,2
Germany	1 682,9	5,3	1 824,7	5,7
Poland	571,3	1,8	612,8	1,9
Russian Federation	797,2	2,5	797,1	2,5
Hungary	511,1	1,6	544,8	1,7
France	723,4	2,3	753,6	2,4
Czech Republic	115,8	0,4	112,3	0,4
Switzerland	1 515,9	4,8	1 532,9	4,8
Sweden	351,2	1,1	345,1	1,1

*Data are not disclosed in order to ensure compliance with the requirements of the Law of Ukraine "On State Statistics" regarding the confidentiality of statistical information.

Source: State Statistics Service of Ukraine [3]

whole and among the EU countries. The industry of Ukraine from Cyprus received 2 678 171.7 thousand US dollars, and in the financial and insurance sector – 978 399.8 thousand US dollars (as of July 1, 2018). It should be noted that about 25% of global investment comes from Cyprus, an off-shore zone for Ukraine, and to a greater extent represents the return of capital brought out by local businessmen in previous years. In the context of the lack of transparency of the owners, the issue of a clear division between investments of Ukrainian origin and European ones is officially complicated.

Germany is another strategically important investor for Ukraine. The industry received 1 080 777.1 thousand US dollars, and in the financial and insurance sector – 129 402.4 thousand US dollars (as of July 1, 2018). The total investment from other German industrial corporations in the Ukrainian economy is insignificant. In addition, in 2014, German corporations stopped working on the territory of the Crimean AO, such as Siemens

AG, which participated in the creation of a "wind park", as well as companies producing commercial vehicles from Volkswagen AG.

Direct foreign investments from the Netherlands are mainly injected into the industry (2 563 537.0 thousand US dollars), IT sector, and wholesale and retail trade. Dutch investors were actively engaged in the creation of modern logistics centres around Kyiv, essentially laying the new standards for the construction of commercial real estate in Ukraine.

Financial and insurance activities are the main area of interest of investors from Austria in Ukraine (334 431.8 thousand US dollars). The main investment project in Ukraine was the acquisition by the Austrian financial group "Raiffeisen" of the Joint-Stock Postal Pension Bank Aval and creation on its basis of Raiffeisen-Aval, one of the leading commercial banks in Ukraine. Insignificant funds are invested by Austrian investors in industrial enterprises, wholesale and retail trade, service enterprises.

The predominant volume of investments from Great Britain was made in the sphere of services and industry. This structure of investment somewhat reproduces the sectoral structure of the national economy of Great Britain. However, it should be noted that the sphere of financial and insurance services, which is the main branch of the economy of Great Britain, is almost not represented in Ukraine, indicating possible prospects of British investment in this sector of the economy [4].

The investment of Ukrainian funds in the economy of the EU countries is an important aspect of investment cooperation between Ukraine and the EU. As of 01.10.2018, the volume of investments from Ukraine is 6 306.5 million US dollars, and the EU countries – 6 086.2 million US dollars. The study of Ukraine's investment in the EU economies reveals that the main importers of Ukrainian investments are Cyprus, Hungary, and Latvia. In this case, a significant proportion of investments into Cyprus are again observed (5 932.1 million US dollars). For more information, see Table 2.

Despite the fact that Ukraine is in urgent need of foreign investment, there are serious obstacles to it. Ukraine has a number of “national peculiarities” that do not contribute to investment at all. It is a dishonest competition when your neighbour trader opens up a store to sell grey imports next to your store and you will run out of the profit margin or go bankrupt. This is raiding because our courts cannot protect property rights. But no one believes in the inevitability of punishment. The unbelievable number of permissions required is used, as an occasion for routine inspections, frustrates investors, and deregulation does not end there at all [5].

Corruption is another national peculiarity, and it is with the distrust of the judicial system, monopolization of the markets, and the power of the oligarchs that is an obstacle. In 2017, the Swedish company IKEA announced its desire to enter the Ukrainian market, but this epic has continued since 2005, and therefore, you can only wonder

about the prowess of the Swedes or their unlimited belief in the possibility of Ukrainian “improvements.” In 2005–2008, IKEA could not solve the issue of land allotment: the furniture company initially allocated a plot near Odesa, and then – in the Boryspil region, however, as a result, the construction of warehouses for finished products never started.

The Swedes were genuinely surprised by the fact that Ukrainian land costs at times are more expensive than in other European countries, and when it became clear that they simply demanded huge rebounds, our potential partners were not afraid of publicity and told the whole truth about the corruption environment to which they hit Representatives of IKEA called specific names and cited concrete facts – information about who and how they demanded a bribe was fully disclosed. It's been 12 years, but no one is punished. And – more importantly – no conclusions from this story have been made.

“Unfortunately, the level of corruption and the unfavourable investment climate in Ukraine do not allow Tesla to invest in energy conservation projects in this country,” said Ilon Mask. Also, the head of the EU Delegation to Ukraine Hug Mingarelli said: “You know, what is the main obstacle to foreign investment in Ukraine? Corruption! If you ask the heads of European companies why they do not invest in Ukraine, they will say that because of the lack of guarantees of their property rights. If they have a dispute here and go to court, they will probably meet a corrupt judge.” [6]

The problem of protecting investment and capital output remains one of the most urgent. A rather quick and easy way to drastically change the situation is to abolish the income tax and introduce a tax on withdrawn capital. It will give the country an internal and external investor, stop the withdrawal of money from the offshore, add one percent of GDP and 110 billion hryvnias of investments annually. This tax is very easy to administer, there will

Table 2

**Direct investments (share capital) from Ukraine
in the economy of the EU countries in January–September 2018**

	Amount at			
	01.01.2018		01.10.2018	
	million United States dollars	percentages of total	million United States dollars	percentages of total
Total to EU countries	6 075,5	100,0	6 086,2	100,0
Cyprus	5 932,5	97,6	5 932,1	97,5
Latvia	60,9	1,0	73,5	1,2
Hungary	17,5	0,3	17,0	0,3
Other EU countries	64,6	1,1	63,6	1,0
<i>For reference:</i>				
All from Ukraine	6 322,0	X	6 306,5	X
Total EU-15 countries	27,8	X	27,3	X

Source: State Statistics Service of Ukraine [3]

be no need for exhausting tax audits, and this is already a significant relief for business. The results of such changes cannot be overestimated. After all, in addition to the development of entrepreneurship, this is an increase in the number of jobs, wages, the termination of the conversion centres, the opportunity for those entrepreneurs who are now in the shadow to live honestly.

The volatile currency is another reason for the inhibition of investment inflows, the financial system and, of course, the military conflict between Ukraine and Russia. An important role is played by the abolition of the moratorium on the land sale. This is more important than building infrastructure for foreign investors. Since Ukraine is a country with potential, the output can still be found. At present, representatives in the field of attraction of investments are actively working and creating leg-

islative provisions that can simplify the process of entering the investment of a foreign country into the territory of Ukraine.

Conclusions from this study and prospects for further exploration in this direction. Direct foreign investment from the countries of the European Union is important for the economy of Ukraine. The creation of a Free Trade Area between Ukraine and the European Union should be a significant impetus for the more active investment of European countries in the Ukrainian economy. Foreign investors create jobs, stimulate economic activity, lead to GDP growth. Unfortunately, there are serious obstacles for foreign investors, including volatile and unpredictable legislation of the authorities, abuse of the courts, persecution by the tax authorities, corruption and a low level of protection of property rights.

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