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UKRAINE'S INTEGRATION INTO THE INTERNATIONAL INVESTMENT SPACE VIA STIMULATION OF INVESTMENT COOPERATION WITH EMERGING ECONOMIES

Summary. The article analyzes the role emerging market economies play in external investment activity of Ukraine. The key investment partners of Ukraine from emerging economies are determined. The relative importance of some of them is revealed.

Keywords: emerging economies, cross-border cooperation, foreign investments, foreign direct investments.

Problem setup. Nowadays emerging market economies possess one of the central places in the economic investigations devoted to the financial markets' structure and international investment space. Spectacular economic performance of those countries was associated with their effective use of previously attracted foreign capital. Deepening integration of these countries into international investment space, already as exporters of capital, is of big interest especially for those countries that do not have enough internal sources for growth. Ukraine is one in a row.

The experience of such countries' participation in global investment exchange could be very useful. In particular, this applies to the study of the dynamics and structure of investment flows from emerging economies to Ukraine. Taking into account the necessity to diversify the sources of investments under the circumstances of a limited range of partners, the problem becomes even more acute.

Literature review. Many scientists dealt with an investigation of the role emerging market economies played at global financial markets. Various researches were provided by a group of IMF economists [1, 2]. Some developments on the subject could be found in the works of Ukrainian scientists [3, 4, 5]. However, the question of Ukraine's participation in international capital flows in relation to emerging economies, so far has not been given sufficient attention. Thus, current study primarily aims to fill in the gap, and from this point is original and innovative.

The goal of the paper is to qualitatively and quantitatively analyze the dynamics of cross-border

capital flows between Ukraine and emerging market economies, to study the relative importance of these countries for investment cooperation of Ukraine and to evaluate the potential to change it.

The main body. To start with, it is important to mention that there are several approaches to determine emerging market economies. However, in this paper we used the methodology recognized by most scholars, namely the methodology of the Bank for International Settlements. BIS identifies 27 countries with emerging market, and 6 more countries are commonly considered by top-rating agencies in the calculation of various indices (Pakistan, Morocco, Egypt, UAE, Jordan and Israel). Thus, international investment cooperation with these countries is the subject of current research. Statistical base of the study is represented by the data of State Statistics Committee of Ukraine for 1996-2010.

The structure of investment inflows and outflows of Ukraine is rather homogeneous [6]—biggest share of FDI in flow goes from Europe, as well as FDI from Ukraine is primarily directed to the EU (Cyprus). If one considers the scope of investment cooperation between Ukraine and defined group of 33 emerging economies, it is worth mentioning that Ukraine does not cooperate with two of them, namely Chile and the Philippines. This could be explained by substantial geographic distance between the regions countries belong to, and therefore, absence of other historically conditioned economic relations of substantial importance. Furthermore, it is observed unilateral investment cooperation for some countries (Table 1). The lack of available data complicates the in-depth analysis.

Notwithstanding the foregoing circumstances, we could obtain several illustrative findings.

First of all, FDI inflows from emerging market economies increased 40 times during the period from early 1996 to 2012, primarily due to FDI from Russian Federation, which has remained the largest investor in a group. Along with Poland and Hungary, these countries account for around 63 percent

FDI flows between Ukraine and emerging economies

	FDI from emerging economies to Ukraine (stock, beginning of period)				FDI from Ukraine to emerging economies (stock, beginning of period)			
	1996	2012	1996	2012	1996	2012	1996	2012
	mln USD		% of total		mln USD		% of total	
Europe			47,28	29,96			12,53	16,91
Bulgaria	6,4	23	4,46	0,39	71,5	*	0,12	*
Poland	20,5	875,5	14,30	14,98	260,2	48222,2	0,43	16,88
Romania	0	21	0,00	0,36	36,5	*	0,06	*
Slovak Republic	12,3	62,7	8,58	1,07	—	—	—	—
Hungary	20	686,1	13,95	11,74	7125,1	88,5	11,90	0,03
Croatia	1	5,9	0,70	0,10	—	—	—	—
Czech Republic	7,6	76,9	5,30	1,32	9,6	*	0,02	*
Asia			15,48	8,42			0,48	0,31
Hong Kong	1,7	14,4	1,19	0,25	—	—	—	—
Israel	9,6	45,2	6,69	0,77	—	*	—	*
India	0,5	18,4	0,35	0,31	—	*	—	*
Indonesia	*	0,3	*	0,01	—	—	—	—
Jordan	0,4	3,2	0,28	0,05	—	—	—	—
China	4	15	2,79	0,26	—	886	—	0,31
Korea	0,1	171,5	0,07	2,93	—	—	—	—
Malaysia	—	*	—	*	—	—	—	—
UAE	—	21,3	—	0,36	—	*	—	*
Pakistan	0,2	0	0,14	0,00	—	—	—	—
Singapore	1	23,8	0,70	0,41	—	—	—	—
Thailand	—	*	—	*	—	—	—	—
Taiwan	*	—	*	—	—	—	—	—
Turkey	4,7	179,2	3,28	3,07	290,2	*	0,48	*
Philippines	—	—	—	—	—	—	—	—
Africa			2,16	0,01			*	*
Egypt	3,1	0,4	2,16	0,01	*	*	*	*
Morocco	—	—	—	—	*	—	*	—
South Africa	*	*	*	*	—	—	—	—
America			0,21	0,12				
Argentina	*	0,6	*	0,01	—	—	—	—
Brazil	—	*	—	*	—	—	—	—
Venezuela	0,3	*	0,21	*	—	—	—	—
Columbia	*	*	*	*	—	—	—	—
Mexico	—	*	—	*	—	—	—	—
Peru	—	6,3	—	0,11	—	—	—	—
Chile	—	—	—	—	—	—	—	—
CIS			34,87	61,49			86,99	82,78
Russian Federation	50	3594,5	34,87	61,49	52095,5	236527,7	86,99	82,78
Total:	143,4	5845,2	100,00	100,00	59888,6	285724,4	100,00	100,00
From Total, %	15,99	11,84			71,20	4,14		

Source: compiled by the author based on data of State statistic Committee of Ukraine [7]

“—” – There are no data * – information is confidential in accordance with the Law of Ukraine “On State Statistics”

of FDI stock from emerging economies in Ukraine. Most of these investments were directed into the financial sector [8]. However, in total FDI inward stock Austria, Germany, Sweden, Netherlands, United Kingdom, United States dominated. As well investments were directed to financial activities.

However, the corresponding outward FDI to emerging economies grew only 4.7 times. It should be noted that most of emerging markets are not the recipients of Ukrainian investments either. According to available information, 99.7% of overall FDI outflows to emerging economies from Ukraine are concentrated in Russia and Poland – they could be considered as the triggers of Ukrainian FDI increase. At the same time, in the total FDI outward stock Cyprus gained the predominant position. Bulgaria, Romania, Czech Republic, India, Israel, UAE, Turkey and Egypt are those emerging economies that do get Ukrainian investments. These countries have recently performed better in the terms of economic stability and a deeper economic cooperation with Ukraine, than the rest of emerging market economies.

Investing into emerging economy has the apparent positive difference from investing of Ukraine in general. These investments are mostly directed to real sector, where Ukrainian entrepreneurs realize their economic interests. First and foremost this is the industrial production, namely, metallurgy, machinery, petrochemical industry, food industry, etc. So, Ukrainian entrepreneurs try to integrate into global production networks via vertical and horizontal integration. In Poland the biggest share of Ukrainian investments is concentrated in trade and repairs. However, in total FDI outward stock from Ukraine the largest share is devoted to the financial sector and operations with real estate and engineering. While it should be mentioned that FDI investments from these countries to Ukraine are hardly comparable with total FDI in the economy (less than 1%).

Due to the fact that growth rates of FDI inflows from emerging economies are higher than those of outflows to them, the balance of FDI accumulated inflows and outflows increased 10 times from 1996 to 2012. Although the role of emerging economies in trans boundary investment activity of Ukraine relatively decelerated. Thus, share of emerging economies' FDI in total investment stock in Ukraine declined from 16% to 12%, share of Ukrainian FDI to emerging market economies in total outward investment stock decreased significantly from 71% to 4%. This happened against the background of investments' growth in absolute terms. The fact contains a number of hidden threats – such changes occurred simultaneously

with changes in the sector structure of FDI. Along with the increasing role of advanced economies in the investment activity of Ukraine, their attention is currently focused on the financial sector and Ukrainian investments shifted offshore. In the former case, the main reason of not investing into the real economy was the difficulty starting a business and a high level of operational risk and low confidence in Ukrainian economy from the side of foreign investors, in the latter case – this sort of investment is a testament of reducing confidence in the Ukrainian economy from the side of domestic entrepreneurs.

Given these circumstances, one can make a number of conclusions regarding the role of emerging economies in Ukrainian investment activity.

Conclusions. Given the information that is available in a wide, the volume of mutual investment with emerging economies increased significantly during 1996-2012, while they remain insignificantly lower than the volume of mutual investment with other partners of Ukraine.

Ukraine cooperates to a greater extent with those emerging markets that are located relatively closer to it, both in terms of physical proximity and in terms of existing agreements on economic cooperation, or well-established economic ties. In their turn, investments from Ukraine are concentrated in countries where the level of economic risk and uncertainty is relatively lower, or in the countries EU– members or those that have a perspective of such a membership. These factors only support the general suppositions of FDI theories.

Respective emerging markets' investment share concentrated in the financial sector, while Ukrainian investors invest to the real economy of emerging economies on the contrary to the average structure of FDI outflows.

Thus, investors from emerging market economies, which form the group of countries relatively similar to each other in level of economic development and economic risks, primarily try to reduce uncertainty while operating. Therefore, this factor is of crucial importance for FDI. Suggested hypothesis should be tested while conducting further researches.

From a practical point of view, the group of emerging market economies can not be considered now or in the nearest future as a key investment partner of Ukraine. It is supported by observed growth and dynamics of FDI from these countries to Ukraine. Emerging economies are of considerable interest for Ukrainian economist as it is proven by the direction of Ukrainian investments into the real sector. In this case one could observe the tendency to the formation of vectors of Ukrainian external

investment activity. Two vectors Bulgaria, Romania, Poland, Hungary, Czech Republic and Russia – "Former REV" and "Middle East" – Israel, Turkey, UAE and the third "Far East" – China and India. It is important to understand that these vectors have different perspectives of development, and so they may be of different interests for Ukrainian entrepreneurs. They could be placed in next order according to their priority for Ukraine – "Far East" (large consumer markets with high speed of economic development), "Former REV" (perspectives of EU membership and economic cooperation in other areas) and "Middle East" (energy security, along with less degree of economic integration with Ukraine). Subsequent research in this area should concentrate on the development of ideas about the relative importance of these countries in investment cooperation with emerging economies.

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Кобилянська А. В. Україна в міжнародному обміні інвестиційним капіталом з країнами з ринками, що формуються

Анотація. В статті проаналізована роль країн з ринками, що формуються, в економічному співробітництві в галузі іноземного інвестування з Україною. Визначені основні партнери України в процесі транскордонного інвестування. Показана відносна значущість інвестиційних партнерів

Ключові слова: країни з ринками, що формуються; транскордонне співробітництво; іноземні інвестиції; прямі іноземні інвестиції.

Кобылянская А. В. Украина в международном обмене инвестиционным капиталом со странами с формирующимися рынками

Аннотация. В статье проанализирована роль стран с формирующимися рынками, в экономическом сотрудничестве в области иностранного инвестирования с Украиной. Определены основные партнеры Украины в процессе трансграничного инвестирования. Показана относительная значимость инвестиционных партнеров.

Ключевые слова: страны с формирующимися рынками; трансграничное сотрудничество; иностранные инвестиции; прямые иностранные инвестиции.