

INVESTMENT CLIMATE IN UKRAINE AS A FACTOR FOR EXPANSION OF ITS FOREIGN ECONOMIC ACTIVITIES

Holubova H. V.

PhD (Economics),

Associate Professor of Statistics Department,

National Academy of Statistics, Accounting and Audit

Abstract. The need to attract foreign investment to Ukraine is caused by a number of factors: limited internal investment resources, slack investment activity of domestic investors, the need of technology transfer on investment line, the need to modernize public infrastructure. The study aims to analyze foreign investment tendencies in Ukraine from the perspective of building up and implementation of the foreign economic policy.

Current trends of investment in Ukraine and dynamics of foreign direct investment (FDI) per capita are analyzed. The growth in FDI to Ukraine decreased from 34.5% in 2008 to 8.4% in 2013. In 2013, per capital FDI was 1197.24 USD. Analysis of the FDI structure by Ukrainian region is made. In 2013, almost 50% of FDI to Ukraine was concentrated in Kyiv, 15.3% in Dnipropetrovsk region and 5.7% in the Donetsk region. The outflow of FDI from Ukraine in 2013 was mostly from Donetsk region (83.7% of the total outflow) and the city of Kyiv (10.4%). Therefore, the biggest investor for the rest of the world was Donetsk region, the only Ukrainian region with negative FDI balance. The estimated integral index shows essential differentiation of Ukrainian regions by the foreign economic activities performance.

Keywords: foreign economic activities, foreign direct investment, exports, imports.

Анотація. У статті обґрунтовано актуальність й важливість інвестиційної привабливості України в контексті її зовнішньоекономічної діяльності. Проаналізовано сучасні тенденції інвестиційних процесів в Україні, динаміка прямих іноземних інвестицій на душу населення та на регіональному рівні здійснено аналіз структури прямих іноземних інвестицій в Україну та з України. Обчислено інтегральні показники, на основі яких здійснено диференціацію регіонів України за рівнем розвитку зовнішньоекономічної діяльності.

Ключові слова: зовнішньоекономічна діяльність, прямі іноземні інвестиції, експорт, імпорт.

Аннотация. В статье обоснована актуальность и важность инвестиционной привлекательности Украины в контексте ее внешнеэкономической деятельности. Проанализированы современные тенденции инвестиционных процессов в Украине, динамика прямых иностранных инвестиций на душу населения и на региональном уровне осуществлен анализ структуры прямых иностранных инвестиций в Украину и из Украины. Рассчитаны интегральные показатели, на основе которых осуществлена дифференциация регионов Украины по уровню развития внешнеэкономической деятельности.

Ключевые слова: внешнеэкономическая деятельность, прямые иностранные инвестиции, экспорт, импорт.

Problem setting. The aggravating political and financial crisis in Ukraine may have a significant effect for its foreign economic activities, contribution in international trade etc. The investment opportunities for foreign companies should be expanded to the maximal extent in this difficult crisis period. The need to attract foreign investment to Ukraine is caused by a number of factors: limited internal investment resources, slack investment activity of domestic investors, the need for technology transfer on investment line, the need to modernize public infrastructure etc. [1].

Influx of foreign capital in the production sector can reanimate the Ukrainian business, create jobs, encourage business expansion, strengthen international relations and partnerships with foreign countries etc. Elaboration of an effective investment strategy and creation of the attractive image of Ukraine must, therefore, be a top objective for the current Ukrainian government. From the foreign economic activities (FEA) perspective, foreign investment will strengthen international relations, intensify foreign trade and enhance competitive capacities of the Ukrainian economy, to enter global markets.

Review of latest studies and publications. Statistical measurement of the socio-economic development in Ukraine on the whole and selected aspects of its FEA in particular is elaborated in works of leading Ukrainian researchers in statistics: S. S. Herasimenko, A. M. Yerina, R. O. Kulynych, I. H. Mantsurov, V. S. Mykhaylov, R. M. Motoryn, N. O. Parfentseva, A. V. Sydorova and others.

The study aims to analyze foreign investment developments in Ukraine from the perspective of building up and implementation of the foreign economic policy.

Results. Analysis of trends in foreign investment to Ukraine over 2001–2013 is summed up in Table 1. In 2013, foreign direct investment (FDI) to Ukraine amounted 55,296,800,000 USD, which is 4,962,900,000 USD (or 9.9%) higher than in 2012. However, as the ratio of FDI growth was decreasing, the ratio of the lead of FDI to Ukraine over FDI from Ukraine fell from 3.38 in 2006 to 1.17 in 2013.

In 2013, FDI to Ukraine was 8.5 higher than FDI from Ukraine. The downward trend in FDI can be seen from the estimated ratio of FDI growth (reduction) per capita (see Table 2). FDI growth in Ukraine slowed from 34.5% in 2008 to 8.4% in 2013.

Table 1

Foreign Direct Investment to Ukraine and from Ukraine, 2001–2013

Indicator	2001	2006	2010	2011	2012	2013
<i>FDI to Ukraine</i> (million USD)	3875.0	16890.0	40053.0	44806.0	50333.9	55296.8
Absolute growth (reduction) (million USD)	–	13015.0	23163.0	4753.0	5527.9	4962.9
Ratio of growth (reduction)	–	4.359	2.371	1.119	1.123	1.099
<i>FDI from Ukraine</i> (million USD)	170.3	219.5	6226.3	6868.3	6899.7	6483.3
Absolute growth (reduction) (million USD)	–	49.2	6006.8	642.0	31.4	-416.4
Ratio of growth (reduction)	–	1.289	28.366	1.103	1.005	0.940
Ratio of lead of FDI to Ukraine over FDI from Ukraine	–	3.38	0.08	1.01	1.12	1.17

Table 2

Foreign Direct Investment to Ukraine in 2007–2013

Indicator	2007	2008	2009	2010	2011	2012	2013
Per capita FDI to Ukraine (USD)	474.78	638.62	773.43	873.19	980.22	1104.06	1197.24
Ratio of per capita growth (reduction) of FDI to Ukraine	–	1.345	1.211	1.129	1.123	1.126	1.084

In 2013, per capita FDI amounted to 1197.24 USD, which is only 93.18 USD higher than in 2012.

Table 3 contains data on FDI structure by Ukrainian region. In 2013, nearly 50% FDI to Ukraine was concentrated in the city of Kyiv, 15.3% – in Dnipropetrovsk region, 5.7% – in Donetsk region, with the rest of 30% accounted for by other Ukrainian regions. The outflow of FDI from Ukraine in 2013 was mostly from Donetsk region (83.7% of the total outflow) and the city of Kyiv (10.4%). Therefore, the biggest investor for the rest of the world was Donetsk region, the only Ukrainian region with negative FDI balance (-2,239,900,000 USD).

Integral measures are widely used in economic studies. Integral measurement of FEA in Ukrainian regions is made by data shown in Table 4.

Integral measures for each region are computed as the mean of the standardized measures:

$$G_j = \frac{1}{m} \sum_1^m z_{ij}. \quad (1)$$

The most common method for standardization for stimulators are their normalization by maximal value ($a = x_{\max}$), whereas for de-stimulators – $a = x_{\min}$.

$$z_{ij} = \frac{x_{ij}}{x_{\max}}, \quad (2)$$

$$z_{ij} = \frac{x_{\min}}{x_{ij}}. \quad (3)$$

The integral index includes the six key FEA indicators for Ukraine: gross domestic product; exports of goods, exports of services, imports of goods, imports of services, and direct foreign investment. Theoretically, all the selected indicators can be assumed as stimulators, because they push up FEA at country and regional level. However, the imports dependency estimate for Ukraine in 2013 equaled 42%, being an evidence of its high imports dependency. In view of this, imports of goods and imports of services are assumed as de-stimulators. Normalization is made by formulas 2 and 3, results are shown in Table 5.

According to the results of integral measurement, the leading group includes five regions: the city of Kyiv (0.666), Donetsk region (0.306), Dnipropetrovsk region (0.291), Chenivtsi region (0.289), and the city of Sevastopol (0.218). Also, there's a very wide gap between the integral index for the city of Kyiv (the Ukrainian capital) and indices for other Ukrainian regions, which, once and again, confirms the key po-

Foreign Direct Investment and Its Structure by Ukrainian Region, 2013

Region	FDI to Ukraine (million USD)	FDI from Ukraine (million USD)	Balance (million USD)	Share of FDI, %	
				to Ukraine 100,00	from Ukraine 100,00
Україна	55296,8	6483,3	48813,5	100,00	100,00
Autonomous Republic of Crimea	1461,6	2,0	1459,6	2.64	0.03
Vinnytza	248,2	0,2	248,0	0.45	0.00
Volyn	380,5	*	380,5	0.69	0.00
Dnipropetrovsk	8432,3	191,1	8241,2	15.25	2.95
Donetsk	3187,0	5426,9	-2239,9	5.76	83.71
Zhytomyr	362,8	*	362,8	0.66	0.00
Transcarpatia	406,4	*	406,4	0.73	0.00
Zaporizhzhya	1077,6	41,6	1036,0	1.95	0.64
Ivano-Frankivsk	642,7	*	642,7	1.16	0.00
Kyiv	1835,2	7,0	1828,2	3.32	0.11
Kirovohrad	103,7	0,1	103,6	0.19	0.00
Luhansk	838,2	11,1	827,1	1.52	0.17
Kviv	1637,8	27,4	1610,4	2.96	0.42
Mykolayiv	244,7	0,8	243,9	0.44	0.01
Odesa	1629,1	53,9	1575,2	2.95	0.83
Poltava	943,2	2,3	940,9	1.71	0.04
Rivne	298,8	*	298,8	0.54	0.00
Sumy	386,5	2,7	383,8	0.70	0.04
Ternopil	63,9	*	63,9	0.12	0.00
Kharkiv	2174,3	12,9	2161,4	3.93	0.20
Kherson	251,5	0,1	251,4	0.45	0.00
Khmelnitck	205,1	*	205,1	0.37	0.00
Cherkasy	882,5	*	882,5	1.60	0.00
Chernivisi	64,2	*	64,2	0.12	0.00
Chernihiv	105,0	*	105,0	0.19	0.00
The city of Kyiv	27278,1	671,9	26606,2	49.33	10.36
The city of Sevastopol	155,9	*	155,9	0.28	0.00

*Data are withdrawn in keeping with the item of data confidentiality in the Law of Ukraine "On Official Statistics".

Table 4

Inputs for Analysis of Foreign Economic Activities by Ukrainian Region, 2013

Region	(million UAH)					(million USD)				
	Gross regional product	Exports of goods	Imports of goods	Exports of services	Imports of services	Exports of goods	Imports of goods	Exports of services	Imports of services	FDI to Ukraine
Autonomous Republic of Crimea	46393,0	914,9	1045,3	521,7	75,9					1461,6
Vinnitsa	36191,0	679,3	496,2	59,3	33,2					248,2
Volyn	20622,0	628,8	1089	57,6	42,4					380,5
Dnipropetrovsk	152905,0	9794,9	5357,3	542,9	504,1					8432,3
Donetsk	164926,0	12408,6	4054,6	639,6	621,2					3187,0
Zhytomyr	25676,0	606,1	384,2	40,8	15,3					362,8
Transcarpatia	21400,0	1300	2062,5	292,4	48,4					406,4
Zaporizhzhya	54352,0	3678,5	1760	228,7	103,4					1077,6
Ivano-Frankivsk	33196,0	471,7	578,3	68,5	34,4					642,7
Kyiv	68931,0	1973,7	4736,2	477,8	309,4					1835,2
Kirovohrad	25313,0	857,2	242,9	20,4	48,3					103,7
Luhansk	55108,0	3543,6	1849,9	157,4	167,4					838,2
Kviv	63329,0	1290,9	2655,9	395,7	113,2					1637,8
Mykolayiv	32030,0	2174,1	928,9	621	78,2					244,7
Odesa	69760,0	1628,4	3438,7	1178,3	268,6					1629,1
Poltava	58464,0	2654,6	1111,6	79,3	191,6					943,2
Rivne	22004,0	482,6	328,1	65,5	27,9					298,8
Sumy	26765,0	924,6	645,6	55,4	77,9					386,5
Terнопil	18085,0	365,1	349,7	58,3	12,6					63,9
Kharkiv	85315,0	1987,3	2280	345	181,4					2174,3
Kherson	20767,0	369,1	274,6	41,3	5					251,5
Khmel'nitsk	26426,0	489	484,3	40,3	16,6					205,1
Cherkasy	33087,0	770,7	497,2	26,7	20,5					882,5
Chernivtsi	13757,0	125,3	158,1	17	2,4					64,2
Chernihiv	24237,0	555,1	586	21,3	30,4					105,0
The city of Kyiv	312552,0	12336,8	26677,5	4018,9	3132,7					27278,1
The city of Sevastopol	11066,0	99,8	106,9	81,3	10					155,9

Table 5
Standardized Measures of Foreign Economic Activities in Ukrainian Regions, 2013 p.

Region	Z ₁	Z ₂	Z ₃	Z ₄	Z ₅	Z ₆	Sum	Integral index	Rank
Autonomous Republic of Crimea	0.148	0.074	0.102	0.130	0.032	0.054	0.539	0.090	18
Vinnitsa	0.116	0.055	0.215	0.015	0.072	0.009	0.482	0.080	22
Volyn	0.066	0.051	0.098	0.014	0.057	0.014	0.300	0.050	27
Dnipropetrovsk	0.489	0.789	0.020	0.135	0.005	0.309	1.748	0.291	3
Donetsk	0.528	1.000	0.026	0.159	0.004	0.117	1.834	0.306	2
Zhytomyr	0.082	0.049	0.278	0.010	0.157	0.013	0.590	0.0983	14
Transcarpatia	0.068	0.105	0.052	0.073	0.050	0.015	0.362	0.060	26
Zaporizhzhya	0.174	0.296	0.061	0.057	0.023	0.040	0.651	0.1085	9
Ivano-Frankivsk	0.106	0.038	0.185	0.017	0.070	0.024	0.439	0.073	23
Kyiv	0.221	0.159	0.023	0.119	0.008	0.067	0.596	0.099	13
Kirovohrad	0.081	0.069	0.440	0.005	0.050	0.004	0.649	0.1081	10
Luhansk	0.176	0.286	0.058	0.039	0.014	0.031	0.604	0.101	11
Kviv	0.203	0.104	0.040	0.098	0.021	0.060	0.527	0.088	20
Mykolayiv	0.102	0.175	0.115	0.155	0.031	0.009	0.587	0.0978	15
Odesa	0.223	0.131	0.031	0.293	0.009	0.060	0.747	0.125	7
Poltava	0.187	0.214	0.096	0.020	0.013	0.035	0.564	0.094	16
Rivne	0.070	0.039	0.326	0.016	0.086	0.011	0.548	0.091	17
Sumy	0.086	0.075	0.166	0.014	0.031	0.014	0.384	0.064	25
Ternopil	0.058	0.029	0.306	0.015	0.190	0.002	0.600	0.100	12
Kharkiv	0.273	0.160	0.047	0.086	0.013	0.080	0.659	0.110	8
Kherson	0.066	0.030	0.389	0.010	0.480	0.009	0.985	0.164	6
Khmelnitisk	0.085	0.039	0.221	0.010	0.145	0.008	0.507	0.084	21
Cherkasy	0.106	0.062	0.215	0.007	0.117	0.032	0.539	0.090	19
Chernivitsi	0.044	0.010	0.676	0.004	1.000	0.002	1.737	0.289	4
Chernihiv	0.078	0.045	0.182	0.005	0.079	0.004	0.393	0.065	24
The city of Kyiv	1.000	0.994	0.004	1.000	0.001	1.000	3.999	0.666	1
The city of Sevastopol	0.035	0.008	1.000	0.020	0.240	0.006	1.309	0.218	5

sition of Kyiv in the Ukrainian FEA. By the FEA rank, the bottom positions are with Volyn, Transcarpatia, Sumy, Chernihiv and Ivano-Frankivsk regions. The analysis shows significant differentiation of the Ukrainian regions by the FEA performance in 2013. Once contributions in FEA from all the Ukrainian regions are expanded, the macroeconomic development of Ukraine and the social welfare will be enhanced.

Conclusions. A central problem of Ukraine is imbalanced regional distribution of capital, including DFI. An essential factor for economic recovery is the increasing inflow of capital, to stimulate both the domestic segment of the national economy through encouragement of small and medium business, industry, financing of government programs etc., and its external segment through expansion of international trade, enhancement of export capacities, positive trade balance etc.

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