

ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

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DYNAMICS OF BILATERAL INVESTMENTS OF UKRAINE AND RUSSIAN FEDERATION: BEFORE AND AFTER THE BEGINNING OF THE POLITICAL AND MILITARY CONFLICT**ДИНАМІКА ДВОСТОРОННІХ ІНВЕСТИЦІЙ УКРАЇНИ І РОСІЙСЬКОЇ ФЕДЕРАЦІЇ: ДО І ПІСЛЯ ПОЧАТКУ ВІЙСЬКОВО-ПОЛІТИЧНОГО КОНФЛІКТУ**

Urgency of the research. One of the most significant problems of the functioning and development of the Ukrainian economy during the whole period after gaining independence is the lack of financial resources.

Target setting. Military and political events of the last years have made negative impact both on investment attractiveness of Ukraine and volumes of mutual investments with Russia, however it is necessary to investigate the objective reasons for this situation.

Actual scientific researches and issues analysis. Attempts to give an objective assessment of the state of foreign investment in the Ukrainian economy and bilateral investments between Ukraine and Russia were made in publications by V. Heiets and L. Shinkaruk, Yu. Kovalenko, P. Pularia, A. Yosypenko and others.

Uninvestigated parts of general matter defining. In spite of great attention to the external investment sphere of Ukraine, special attention was not paid to the assessment of the role of both countries in bilateral investment cooperation.

The research objective. To identify the features of bilateral investment cooperation between Ukraine and the Russian Federation.

The statement of basic materials. The dynamics of mutual foreign direct investments in economy of Ukraine and Russian Federation is analyzed. Role of each country in investment flows as well as structure of mutual investments by industry groups and its changes before and after the beginning of the political and military conflict are described.

Conclusions. A tendency towards a reduction in mutual investment cooperation was noted with the strengthening of its sectoral specialization. The fall in investment volumes as a result of Russian aggression in the Crimea and the east of Ukraine in 2015 changed by restoring investment. The structure of investments from Ukraine to Russia was characterized by the predominance of the real sector as a recipient, while reverse investments were directed to the financial sector.

Keywords: foreign investments; investment cooperation; Ukraine; Russian Federation; dynamics; structure.

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Актуальність теми дослідження. Однією з найбільш значущих проблем функціонування і розвитку економіки України протягом всього періоду після набуття незалежності є брак фінансових ресурсів для оновлення техніко-технологічної бази виробництва і надання послуг.

Постановка проблеми. Військово-політичні події останніх років справили негативний вплив як на інвестиційну привабливість України, так і на обсяги взаємних інвестицій з Росією, однак необхідно виявити і об'єктивні причини для цього.

Аналіз останніх досліджень і публікацій. Спроби дати об'єктивну оцінку стану іноземного інвестування в економіку України та двостороннім інвестиціям між Україною та РФ зроблені в публікаціях В. Гейця та Л. Шинкарук, Ю. Коваленко, П. Пуларія, О. Йосипенко.

Виділення недосліджених частин загальної проблеми. Попри велику увагу до зовнішньої інвестиційної сфери України спеціальна увага оцінці ролі обох країн у двосторонньому інвестиційному співробітництві не приділялася.

Постановка завдання. Визначити особливості двостороннього інвестиційного співробітництва України та Російської Федерації.

Викладення основного матеріалу. Проаналізовано динаміку взаємних прямих іноземних інвестицій в економіку України та Російської Федерації, визначено роль кожної країни у інвестиційних потоках, галузеву структуру взаємних інвестицій та зміни у ній, які відбувалися до і після початку військово-політичного конфлікту.

Висновки. Відзначено тенденцію до скорочення взаємного інвестиційного співробітництва з одночасним посиленням його галузевої спеціалізації. Падіння обсягів інвестицій внаслідок російської агресії у Криму та на сході України в 2015 р. змінилося відновленням інвестування. Структура інвестицій з України до Російської Федерації характеризувалася переважанням реального сектору в якості реципієнта, тоді як зворотні інвестиції були орієнтовані на фінансовий сектор.

Ключові слова: іноземні інвестиції; інвестиційне співробітництво; Україна; Російська Федерація; динаміка; структура.

Urgency of the research. The one of the most significant problems of the functioning and development of the Ukrainian economy throughout the period after independence getting is the lack of financial resources for updating the technical and technological base of production and service sectors,

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which is associated simultaneously with the low level of formation of national savings in an organized form (i.e. savings, which are involved in the activities of the banking system and the domestic stock market) and with the insufficient attractiveness of the Ukrainian economy for foreign investors. At the same time, the issue of capital accumulation and the restoration on the basis of the competitiveness of national production and service sectors is becoming increasingly acute.

Target setting. The military-political events of recent years, of course, had a negative impact both on the investment attractiveness of Ukraine and the volume of investments. Among the main consequences of the situation in the field of foreign investment cooperation is the loss of opportunities in bilateral relations with the Russian Federation (RF) is often pointed out. Moreover, a certain part of the academic, business and political circles considers RF to be the main investment partner of Ukraine in the past and in the future as well. At the same time, the relevance of such allegations should be reviewed.

Actual scientific researches and issues analysis. The attempts to give an objective assessment of the state of foreign investment in Ukrainian economy and bilateral investment between Ukraine and Russia are made in numerous publications. The researches by V. Heiets and L. Shynkaruk [1], Yu. Kovalenko [2], P. Pularia [3], O. Yosypenko [4] and others should be considered as the most important among the latest ones.

Uninvestigated parts of general matters defining. At the same time, despite the great attention to the foreign investment sphere of Ukraine, special attention paid to the assessment of the role of both countries in bilateral investment cooperation and the dynamics of such cooperation was not paid.

The research objective. To identify the features of bilateral investment cooperation between Ukraine and the Russian Federation on the basis of an analysis of the dynamics of volumes and the geographical structure of investments.

The statement of basic materials. The dynamics of foreign direct investment (FDI) into and from the economy of Russia is presented in Fig. 1.

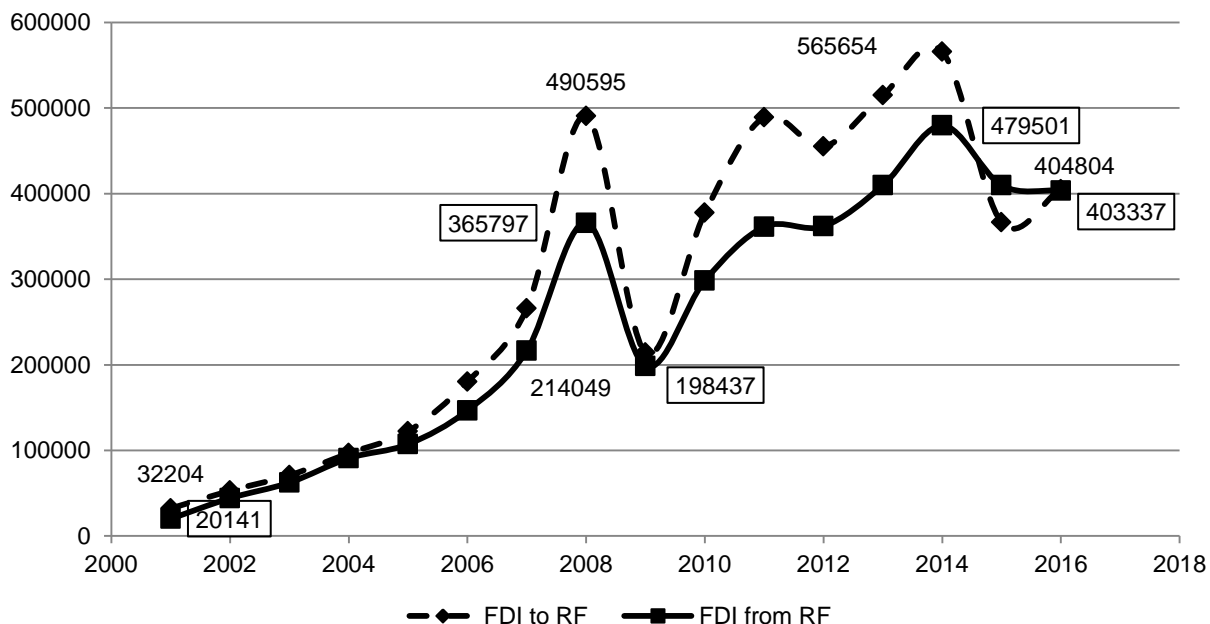


Fig. 1. The dynamics of FDI accumulated into and from Russian Federation in 2001-2016 at the beginning of each year

Source: according to the Bank of Russia [5; 6]

Three peaks can be identified in 2008, 2011 and 2014. It should also be noted that trends in volumes of incoming and outgoing FDI are similar (with the exception of 2015-2016, when Russia be-

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came a net exporter of investments). In table 1 are listed the main investors in the economy of the Russian Federation without taking into account investments in the financial sector. Analysis of these data makes it possible to conclude that offshore areas dominat both in the structure of FDI into the economy of Russia, and in the structure of FDI from the RF.

Table 1

Geographical structure of FDI in 2011-2015, by the balance of operations %

Countries	2011	2012	2013	2014	2015
FDI into RF					
Total direct investments, mln USD, incl. ones from such countries:	488993	50588	69219	22031	6478
Bahamas	3.3	4.2	4.0	16.5	78.6
Virgin Islands (Brit.)	13.1	4.9	13.5	14.2	34.6
Jersey	1.4	1.3	0.7	-3.3	32.8
Bermudas	1.1	-0.6	0.6	8.1	26.1
France	2.0	2.4	3.1	10.1	26.0
Germany	4.1	4.5	0.5	1.6	22.9
United Kingdom	3.6	0.1	27.3	0.5	17.0
Ireland	0.2	0.9	0.9	5.8	10.0
Japan	9.6	19.5	15.0	-2.4	9.6
FDI from RF					
Total direct investments, mln USD, incl. ones from such countries:	66851	48822	86507	57082	22188
Cyprus	34.3	42.8	8.9	41.2	19.4
Virgin Islands (Brit.)	5.8	15.1	71.9	1.3	14.9
Turkey	2.5	8.4	1.7	2.1	6.6
Finland	0.1	0.6	0.1	0.3	6.6
Jersey	1.4	0.8	0.0	-0.5	5.7
Bahamas	0.7	0.9	0.6	1.3	4.6
Cayman Islands	-0.3	0.0	0.6	1.4	4.2
USA	2.4	1.4	0.9	2.9	3.7
Luxembourg	3.0	-1.0	1.5	1.1	3.5
Austria	0.8	2.1	6.1	2.0	3.4

Source: calculated by the author according to the Russian Federal State Statistics Service data [7]

CIS countries, including Ukraine, are not significant either among sources or among the recipients of investment from the Russian Federation. At the same time, in the structure of Russian investments into the CIS countries, Ukraine occupied an important place in the period until 2007, gradually giving way to the position of the main partners of the Russian Federation on the Eurasian Economic Community - Belarus and Kazakhstan (Fig. 2).

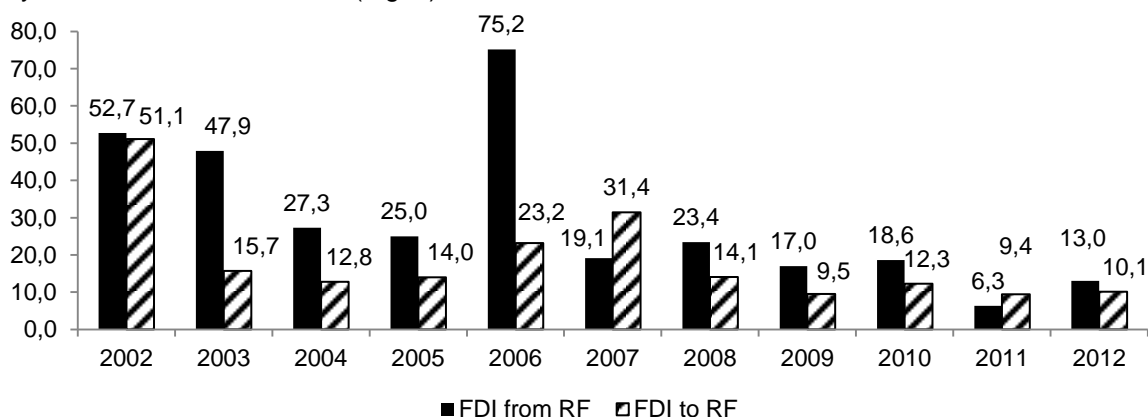


Fig. 2. The share of Ukraine in FDI from and into the Russian Federation in the structure of investment relations with the CIS countries

Source: according to the Russian Federal State Statistics Service data [8]

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Fig. 3 shows the dynamics of FDI into and out of Ukraine's economy. Attention should be paid to the 2008 dynamics of FDI from Ukraine: during the crisis period, outflow of capital amounted to 6196.6 mln USD both in the form of a return on investment and in the form of direct investment of domestic capital abroad in order to reduce risks. In the dynamics of FDI in Ukraine, the peak was noted in 2013, after which the smallest amount was observed in 2016.

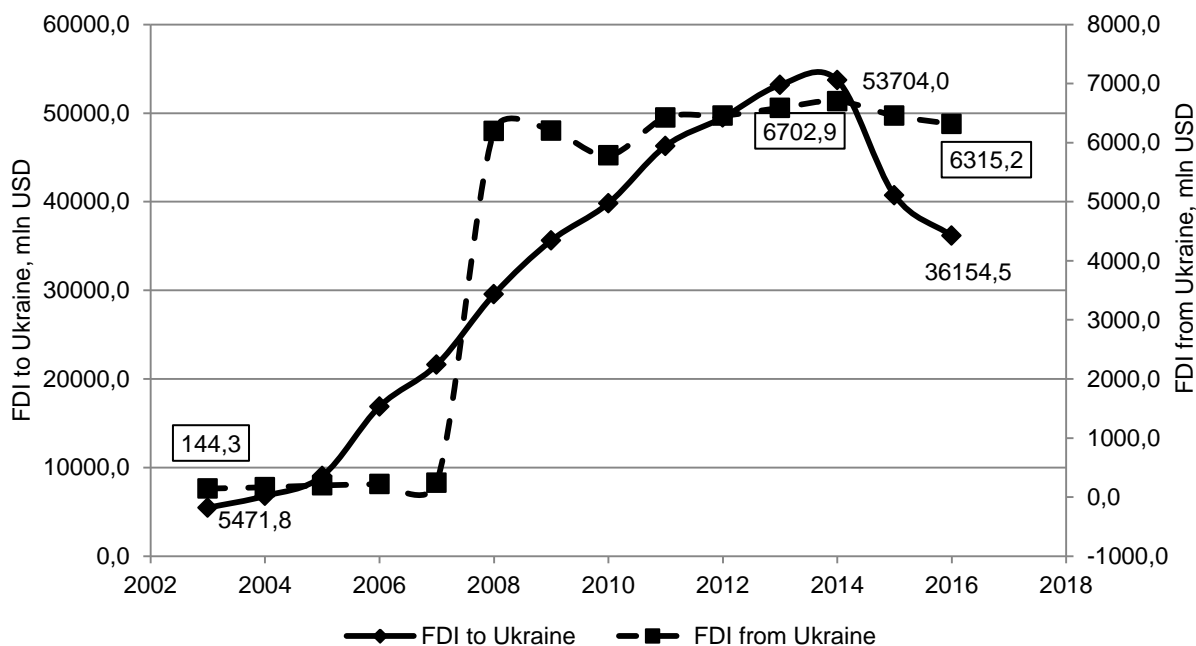


Fig. 3. Dynamics of accumulated FDI at the beginning of each year from and into Ukraine
 Source: according to the data of the State Statistics Service of Ukraine [9]

It should be noted that Russia occupies a more important place in the structure of investment parties of Ukraine, than Ukraine does among the Russian partners. As it can be seen from Fig. 4, in 2004 more than 50% of all FDI from Ukraine were directed to RF, but since 2008 the situation has changed fundamentally, and by 2016 only about 2% of the accumulated FDI from Ukraine has accounted for Russia. This is primarily due to the structure of the types of activities where the investments were made, and the economic crisis of 2008-2009, as well as the consequences of the military-political aggression of the RF in relation to Ukraine.

During 2004-2008, priority activities of Ukrainian investors in the Russian economy were such as leasing and other real estate operations, engineering and services for entrepreneurs (the share of this complex on average amounted to 61%). By 2015 absolute volumes of investments from Ukraine to the Russian Federation grew, first of all, due to investments in food production, metallurgy, machinery (industry share in the investment structure increased from 11.5% in 2008 to 52.3 % in 2011, and in 2014 it was almost 33%). In addition, in the period from 2008 to 2012, wholesale and retail trade was a significant line of investments to the Russian Federation. From 2006 to 2013, investments in the financial sector have been actively developing: the volume of investments has increased from 1.9 to 140.8 mln USD, and the share in 2013 reached a value of 48.1%. Starting from 2015, the volume of investments from Ukraine to the Russian Federation declined to 2008 level, amounting to 122 mln USD in 2016, 32% of which are investments in industry and 56% - in professional and technical services.

The sectoral structure of investments from Russia into the Ukrainian economy was more diversified, but also significantly changed. In 2004, about 50% of Russian investments accounted for the processing industry, primarily petrochemicals, 24.5% for the health sector, and other significant sums

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(from 5 to 10%) were investment in construction, financial sector and trade. Further the share of industry was declining steadily (49.9% in 2004, 4.6% in 2016), and the same situation can be observed with investments in health care (in 2016 the share of investments in this sphere was statistically insignificant). Instead, the role of the sphere of financial transactions increased (2004 - 7.3%, 2016 - 83.9%). In 2005-2007, the share of transport in the structure of Russian investments in Ukraine was rather high (on average, about 26%). In addition, throughout the analysis period, investments in agriculture were significant (on average, in 2004-2016 - 6.4% of investments). Besides, taking into account a difference in economy scales, the Russian investment into Ukraine, especially in spheres of oil refining and finance was the instrument of vertical branch interstate integration in the form of acquisition. In this frame Russian investors established control of capacities and the market.

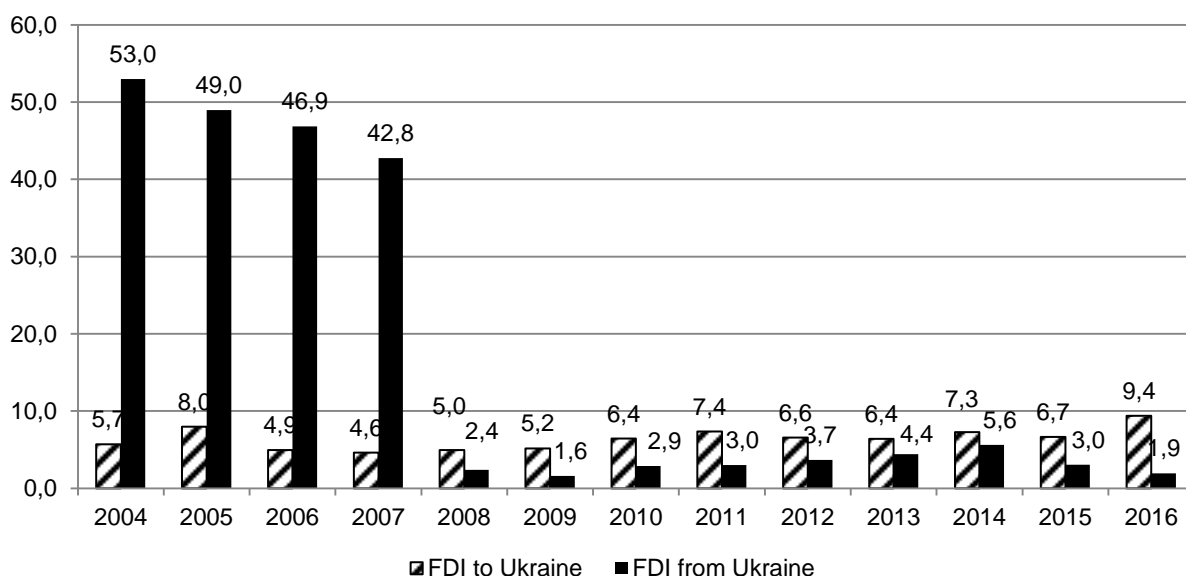


Fig. 4. Particular weight of the Russian Federation in FDI from and in Ukraine, %
 Source: based on data from the State Statistics Service of Ukraine [10-11]

It should be noted that the maximum Russian investment in Ukraine was noted in 2014 (3.9 billion USD), and although the volume of FDI from the Russian Federation to Ukraine in 2015 was reduced to 2.7 billion USD, by the beginning of 2017 it rose again to 3.2 billion USD, indicating the absence of catastrophic phenomena in bilateral investment relations despite economic blockades, opposition to public opinion, and others. Basic direction of investment of money is capitalization of Ukrainian daughters of the Russian banks through losses they had in a result of economic crisis in Ukraine and crisis of bilateral relations. At the same time, such international vertical integration of bank business does not have long-term positive effects on the economy of Ukraine. On the one hand, support of bank activity of daughter's banks in Ukraine is really one of pre-conditions of stability of the Ukrainian banking system today, and from the other hand, such investments essentially are " short-term money" with the easiest option to withdrawal them to Russia both as income from investing and investment resources. In addition, investing in the Ukrainian banking system became means of overcoming of western countries' sanctions.

Conclusions. Participation of Ukraine and Russia in the global capital market and investment relations is determined by virtually identical preconditions such as lack of domestic financial resources and relative weakness of the stock market. In competition for raising capital, Russia plays more important role in the structure of Ukraine's investment relations than Ukraine does among the Russian partners. It should be noted that there was a steady tendency to reduce mutual investment cooperation with the

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simultaneous strengthening of its sectoral specialization before the beginning of the military aggression of Russia in relation to Ukraine. It should be understood that the tendency to reduce the share of investments of both countries into the economy is observed from 2008, and the fall in investment volumes due to Russian aggression in Crimea and in the east of Ukraine in 2015 quickly changed due to the restoration of investment. The structure of investment from Ukraine to Russia was characterized by the predominance of the real sector as a recipient, while reverse investments were oriented towards the financial sector as the most profitable one in Ukraine.

Thus, there is an ambiguous situation now. On the one hand, Ukrainian investments in Russia continue to decline that is entirely the objective phenomenon considering situation in the bilateral relations connected with the annexation of the Crimea and aggression in the Donbass and also risks for the Ukrainian investors which arose as a result of mutual sanctions. On the other hand, stability of financial sector in Ukraine in the short term, unfortunately, depends on the Russian financial resources. Therefore, the decision to ban the presence of Russian investors in Ukraine could result in a significant increase in economic instability in the banking and financial services markets. At the same time, the Ukrainian financial sector, paradoxically, is a backdoor for overcoming the sanctions by certain RF financial institutions from the side of Western countries imposed for the military-political aggression of the RF against Ukraine. In these conditions it is necessary to pay more attention to possibilities of the prohibition of repatriation of the capital and income from Ukraine to Russia and strengthening of fight against roguish schemes of money removal through trade currency transactions.

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