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Bachelor Thesis

Foreign direct investments in the World and Ukraine

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Thesis title

Foreign Direct Investments in the World and Ukraine

Objectives of thesis

Analyzing the economic situation in the World, comparing the data from different states. Presenting the country's profile due to estimation of achievements during the past and current century. Evaluation of Investment market in the main economic leading countries and developed countries. Deep analysis of the economic situation in Ukraine and its position on FDI Market.

Methodology

The first part of the thesis presents methods of literature review, using separation of the general information, descriptive methods. In the second practical part are used comparative methods, graphical analyzing of data from international sources, methods of comparison of data from different states, data analyzing and processing the annual country reports.

The proposed extent of the thesis

40 – 60 pages

Keywords

Investment Market, industries, inward and outward trends, international trade, comparison of states, economic situation, investment structure, changes, development.

Recommended information sources

Annual report 2016, National Bank of Ukraine

Development Co-operation Report, OECD, 2016. ISBN:9789264254497

General Budget of Ukraine, Ministry of Finance, Ukraine

KRUGMAN, P. R. – OBSTFELD, M. *International economics: theory and policy*. Boston: Pearson Addison-Wesley, 2009. ISBN 978-0-321-49304-0.

SAMUELSON, P. A. – NORDHAUS, W. D. *Economics*. Boston: McGraw-Hill Irwin, 2010. ISBN 9780073511290.

White, C. *Risk and Foreign Direct Investments*, Palgrave Macmillan, 2006. ISBN 978-0-230-62483-2
World Investment Report 2017 – UNCTAD

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign direct investments in the World and Ukraine" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on _____

Yuliia Ovchynnikova

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Foreign direct investments in the World and Ukraine

Abstract

The main aim of the thesis is to depict the importance of FDI in the economy, through the description of the theoretical terms and practical examples of the countries' indices, specifying on Ukrainian profile. The work is divided into two parts: theoretical and practical, accomplished by introductory chapter, methodology, conclusion, bibliography, and references.

The first theoretical part characterizes the qualities of foreign investments, providing the historical review, along with a comparison of its advantages and disadvantages. It also describes the types and strategies according to location, purpose, and financing. The next part of the work concentrates on the main economic indices, industrial structure, export and import and FDI structure, comparing the economically leading countries and third-world states. The practical part deeply analyses the economic situation in Ukraine, making an accent on the international trade and FDI by countries and economic activities. The chapter estimates the state and perspectives, political problems, obstructive to the FDI progress. The thesis concluded by solutions, eliminating FDI risks, based on my own research and the international organization's opinions.

Keywords: investment market, industries, inward and outward trends, investment structure, international trade, comparison of states, economic situation, changes, development.

Přímé zahraniční investice ve světě a na Ukrajině

Abstrakt

Hlavním cílem bakalářské práce je zhodnotit a popsat význam přímých zahraničních investic v ekonomice prostřednictvím popisu teoretických pojmů a praktických příkladů indexů zemí se zaměřením na ukrajinský profil. Práce je rozdělena do dvou částí: teoretické a praktické, realizované úvodní kapitolou, metodikou, závěrem, bibliografií a odkazy.

První, teoretická část charakterizuje kvalitu zahraničních investic, poskytuje historický přehled, srovnává jeho výhody a nevýhody. Rovněž popisuje typy a strategie podle místa, účelu a financování. Další části práce se zaměřují na hlavní ekonomické ukazatele, strukturu průmyslu, vývoz a dovoz a strukturu PZI, které porovnávají ekonomicky vyspělé země a státy třetího světa.

Praktická část podrobně analyzuje ekonomickou situaci na Ukrajině s důrazem na mezinárodní obchod a PZI podle zemí a ekonomických aktivit. Tato kapitola odhaduje stav a perspektivy, politické problémy, obstrukční vývoj FDI. Závěr práce navrhuje řešení, která eliminují rizika PZI na základě vlastního výzkumu a názorů mezinárodní organizace.

Klíčová slova: investiční trh, průmysl, vnitřní a vnější trendy, investiční struktura, mezinárodní trh, srovnání států, ekonomická situace, změny, vývoj.

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List of abbreviations

FDI – foreign direct investments

UNCTADstat – United Nations conference on trade and development.

GDP – Gross domestic product.

UKRSTAT - State Statistics Service of the Ukraine.

PPP – purchasing power parity.

NML - Limited - a hedge fund owned by Paul Singer (businessman).

ETFs - Exchange-traded funds.

IMF - International Monetary Fund.

NBU – National Ukrainian Bank.

USSR – Union of Soviet Socialist Republics.

1 Introduction

All integral parts of people's lives are interconnected in the modern world by the circulation of resources: human ones as well as monetary and natural resources. It is an undeniable fact that the fundamental science, which controls the scarcity of process - is the economy. Today, more and more people choose the economy as the basis for their future career. Therefore, the majority of sources confirm that the economic branches regulate almost every sphere of action. Prosperity, in general, is demonstrated throughout all jobs that are performed by a population. However, if micro economy concentrates on a small scale of processes, the macroeconomics regulates the global one.

One of the most vital components of macroeconomics is foreign direct investments. It is widely believed that FDI is an irreplaceable factor in the international economic system. The first document, estimating the role of FDI was published in 2006. From 1960, a lot of surveys were held in the World. It created a competition between the benefits and drawback of FDI. Some countries supported the opinion that foreign investments just disrupt the industries, using inappropriate technologies. A majority of countries have realized that FDI has become a source of international cooperation and trade agreements; resulting in the expansion of global wealth and a sharp development of investing states. Therefore, today all countries that want to be competitors in the global economy do what they can to encourage foreign investments, organizing the welcoming policies for international trades and cooperation. Dozens of experts have proved that the FDI is a catalyst for rising economic productivity throughout the world. The purpose of this study is to compare the experience of past centuries, when the number of disadvantages was crucial, due to an inadequate level of cooperation along with other social and economic reasons.

It is widely accepted that only countries, having a strong economy can produce sufficient amount of goods for export. Their economic situation has been stabilized by encouraging of large firms to invest shares in other countries. From a microeconomic perspective, it's essential to have the ability to purchase some kinds of goods, while expecting future profits, which would be higher than the actual price of investing assets. Among the different types of foreign investments, direct ones are considered to be the most essential kind. They expand international relations and trade development. Doubtless, the economic leaders who are in Europe and North America are the most important participants of investment circulation in the world. Meanwhile, the importance of Slavic countries, even the less developed ones,

notably the Ukraine has an expanded reach in natural and human resources, the importance of which is growing in this century.

2 Objectives and Methodology

2.1 Objectives

The primary aim of the thesis is to identify the position of foreign direct investments in the World economy, particularly in the Ukraine.

To reach this aim, it is necessary to see the picture of investment activities worldwide clearly. That is why the first part of the thesis performs such tasks:

1. Illustrates the theory: terminology and historical facts of FDI, its qualities.
2. Present general descriptions of economics, industrial structures and trade relationships in leading countries and developing states.
3. Compares the data about countries with various origins, situated on different continents, mainly North America and Europe.

The primary objective of the practical part of the thesis is to execute the in-depth analysis of the Ukrainian economic situation and its FDI market. This purpose compasses the following points:

1. Presentation of primary economic indices, counting the political situation.
2. Revealing the information about Ukrainian trade partnership, its inward and outward investments and its structure.

The last sufficient purpose of the work is to explore the future perspectives of the Ukrainian economy. The methods of achieving them based on recommendations dedicated to solutions of current problems and strength development.

2.2 Methodology

The theoretical part of the thesis deploys a method for reviewing sources that draw a picture of basic economic concepts, specifying the foreign direct investments terms. The analysis of literature, which highlights the significant points, is used in the other paragraphs as well, as are the descriptions of Ukrainian trade.

The second method, which is widely used throughout the thesis, is the comparison. In the theoretical part, it mostly concentrates on the strengths and benefits of leading countries versus that of poorer states, in their economic profiles and particularly – investment

directions. In the practical portion, the method of comparison is applied to build an analogy between countries, dealing with the same economic issues, but situated on various continents. The historical data from the past century is analyzed and compared with current data.

Statistical data is collected from international economic platforms as UNCTADstat, Ukrstat, and other reliable information sources. The exploration of a country's annual reports and especially FDI is the primary focus.

I've transformed tables into the graphs, along with charts and diagrams in Microsoft Excel as my technique of illustration.

The method of functional integration into Ukrainian enterprise's work during my internship affords to present the profile of the international company in Ukrainian environment.

3 Literature Review

3.1 Term and history

The term "investment" comes from the Latin word "invest". In the broader interpretation, it is the investment of capital which includes the expectation of its subsequent increase in value. This capital gain should be sufficient to compensate the rejection of the use of available funds. It returns the dividends in the current period to the investor. In other words, to record an entity for its risk, there must be compensation factored for losses from inflation in the forthcoming period.

In general, the concept of investing started to come about in ancient times, when financial relationships were based on feudalism. One notable example of the beginning of investments is Athens. The local citizens were guaranteed economic assistance from the state and land, in return, the people had to farm the land and protect it. The notion of investments was connecting with real estate mortgages. The process opened up the opportunity to regulate the relationship between owners and investors. In that period their possible financial discrepancies were resolved by written agreement, without the participation of governmental structures.

However, investments played an essential role in the international market in the latter part of the 19th century. In 1914, when Victorian-era stated, the central surplus was concentrated in Western Europe. European resources financed Even American transport systems. Nevertheless, the main participants in the market of the financial investments were developed countries who benefited from agricultural output, and the extraction of raw materials that were transported, mostly from 'Third world' countries. The situation has changed significantly after the First World War and the great depression.

According to statistical data, the percentage of international liabilities of big global corporations shrank by 13% in Southern-European countries. In contrast, in Western Europe, foreign investments grew by 37%. Meanwhile, the North American and Japan index rose just slightly by 2-3 %. Whereas in Latin America and Australia they suffered a downward trend in invested equity.

Nowadays, the pattern of investments between rich countries has been saved. The history of financial investments in the world can be traced back to 1914. In spite of the well-known fact

of the significant impact of neoliberal perceptions during the last 15 years, which caused changes in direct investments in countries from the "Third world."

3.2 Positive and negative features of direct foreign investments.

3.2.1 Benefits of direct foreign investments

Foreign investments are actual method of increasing the capital of countries. In the modern world, governmental decisions and private companies frequently use the strategy of long-term ownership to develop business and international cooperation. Therefore, foreign investments, especially direct one, cause rocketing of multinational companies and, accordingly, the process of globalization nowadays.

Today foreign direct investments are one of the most advantageous extraneous resources. Especially in developed countries, the investments help to develop particular sectors, importing new technologies and qualitative equipment. Such changes in production that always allows countries to accumulate capital and encourages them to invest more in future. Moreover, direct investments are developing every day, because of high demand for new products by consumers.

The second important outcome of investors from different regions is even solving such substantial economic problems such as unemployment in undeveloped countries; foreign producers tend to create more and more workplaces for local citizens. Somebody to gain more profits should involve all imported equipment. It is impossible and not rational to make investments based on one's private workforce. As a result, engaging a local workforce leads to improvement of investor's country economy by being more business friendly.

Also, it should be noted that workforces, who are involved in foreign business, gain valuable skills and knowledge, which could be used in other corporations as well. Moreover, the increased access to education encourages directors to increase wages. As a result, it will further the demand for work, and the desire for labor to develop.

Due to the usage of modern technologies, the means of production of have become more efficient and stable. It widely accepted that in a consistent economic pattern that while production is increasing, the costs of goods tend to fall. Such a positive feature is vitally sufficient for countries, which are developing. Because the economic situation in these

countries is severally problematic, accordingly, the local population often has a low average level of income.

Direct foreign investments cause the elimination of international trade barriers between countries. Thus, the prices of resources become more advantageous. Based on integration, companies gain competitive power, when comparing their performance locally versus abroad.

3.2.2 Disadvantages of direct foreign investment

In contrast, the practice of some countries shows that direct foreign investments often concentrate on one particular industry. Consequently, production stops being equally distributed. Unfortunately, it may produce an imbalance between sectors.

In this case, the industries are hardly regulated by the government, resulting in harm to the whole economy.

Sometimes the negative impact of foreign investments is noticed, while the producer has concentrated on profits just for his own country, ignoring the environmental situation an investing region. Of course, the ecological problem has no connection with an economic crisis or level of employment. Nevertheless, the ecology has become a sufficient issue for developed industrial countries throughout the World.

Unfortunately, some of the positive features for employees have substantial drawbacks for states too. For instance, the better conditions cause an outflow of labor from other spheres, which probably supply the country with national products.

3.2.3 Benefits and Drawbacks by the region

For instance, the German practice of attracting foreign labor has mostly had a positive impact on the macro economy. Germany has experienced foreign direct investments, which have resulted in maximizing their competitive edge and strengthening economic relations with other states. German enterprises have invested \$132.5 billion abroad since 2001, and sometimes higher amounts were invested into the German economy. The German model demonstrates a close relationship between FDI and the Globalization process.

The same consequences of the international exchange of investments are duplicated in many Slavic countries of Europe such as Poland, the Czech Republic, Hungary and many others.

They have demonstrated a higher capital intensity and development of not only industrial but domestic firms as well. The number of skilled, experienced staff has expanded their use of technology. Whereas the FDI in the United Kingdom has noticeably improved the car industry, thanks to the cooperation with the US and Europe as well. However, the wage difference, accordingly distribution of capital is not ideally equal, which is one of the disadvantages of foreign investments.

One example of an economic powerhouse is the United States, which cannot be overlooked. Based on recent reports including a report done in October 2013 of economics and statistics organization in the United States that proposes favorable investment environment, there is a growing energy sector and a sound system of legal regulations. This is due in part to actively engaging in international cooperation's, especially the FDI. The FDI in the US has allowed 5.6 million people to be employed, which makes up 4.1% of the total number of firms. Therefore, the manufacturing sector has flourished due to a considerable amount of skilled staff; it has grown by 15% since 2010. There was a similar impact in the manufacturing spheres in Poland, France, and the Czech Republic. France and the Czech Republic have explicitly been concentrating on manufacturing exports nowadays. The FDI provides the US with almost 16 percent of private spending for scientific experiments and technologies, helping 6 percent of all firms in the United States.

3.3 Types and methods of foreign investments

3.3.1 Types

Today there are two main types of investments. Direct and indirect. Direct ones are considered more favorable due to their success. They consist off acquiring land, machines, real estate development to increase profits and establishing a long-term relationship. Indirect investments include the participation of intermediates. This type of investment deals with foreign exchange trades, the purchasing of basic tools of equity as stocks and debt instruments, along with bonds as well. One sufficient difference in indirect investments is that it may be readily sold within a short-time period and does not involve long cooperation.

3.3.2 Strategic methods

All investments possess strategic plans in some capacity. Choosing the proper one for each investor is vital because just selecting the right securities and bonds can bring investors high

profits. To make that choice simple and effective, they categorize investment portfolio allocation. For instance, as it pertains to securities, they may be divided into several groups, such as "large-cap," "emerging markets," "growth" and "international." The mentioned method of categorizing is called style strategy.

This method became popular throughout most of the 20th century. In this period, thanks to identifying the essential information, analyzing the situation on the market, thousands of new investments were made throughout the world.

Due to the classification of assets, investors have gotten an opportunity to evaluate the work of managers. Nowadays the investment community values managers, based on two characteristics: a performance benchmark for their style of investing and disciplined and aggressive growth. Interestingly, absolute performance does not play a key role.

Another approach to direct financial investment is the deep value method, which was formatted in the 1990s. Buying long-term stocks, which have a low price then kept until there were noticeable positive changes in the market, does it.

At the same time, the relative value method was also launched. In this case, managers tried to find under-estimated stocks according to the market, approving facts about companies' potential. As always, such stocks tend to be owned for about 5-6 years. As a contrast to traditional managers, relative managers can deal with all sectors of the economy.

The last method of the 90s is referred to as the new method: managers tend to seek any stocks, without focusing on some original feature, a stock is just chosen, which has the highest probability of future appreciation.

3.4 Strategies

3.4.1 Strategies in the world

It is an undeniable fact that one of the primary concerns of investors is to be able to minimize risk. Therefore, big industrial companies divide investments into fundamental and conservative strategies.

Fundamental strategies have a macroeconomic approach. During the crisis, it was becoming popular to invest in securities under the threat of bankruptcy or liquidation of the companies. During economic downturns, it was advised to buy safe-haven assets: land, US Treasury

bonds, precious metals. During a significant acceleration of inflation, investors often focused on purchasing raw materials.

A technical investment strategy acknowledges that supply and demand depend entirely on objective factors, and even the impact of them on economic data can be calculated mathematically. The valuation of shares held in this case from the last volume and the previous price. Some proponents of technical analysis to buy shares which investment firms advise to sell and hold positions against the mutual fund (from monthly reports of traded shares). But the majority of traders are only interested in support and resistance levels, and they follow the trends that have objective indicators. For example - the ratio of the number of shares is falling to the number of growing, increasing short positions in shares, an increase of gold price to silver ratio above the previous high or break through the moving average over the short-term.

3.4.2 Strategies in the Ukraine

In the Ukraine, people tend to divide investments' strategy into three categories: conservative, aggressive and mixed.

The first strategy covers the purchase of financial assets by the investor, choosing the minimum risk. Nevertheless, it includes just 20% of profit, which is the lowest index, compared to other strategies. Excellent examples of conservative ways investments include deposits and investments into prestigious metals or securities.

The aggressive approach is the opposite of the conservative. The earnings of investors as always are higher than 50%; there is the significant probability that revenues can even reach 100%. While the likelihood of loss grows proportionally to profits. That is why after achieving the highest position in the market; firms may entirely lose their capital. One of the most popular companies – 'Forex trading,' whose mixed or moderate strategy prognoses yield, is around 20-50%. However, the level of probable losses is not as low as in the conservative strategy, because investments in industrial companies and funds or developing businesses tend to be considered less reliable.

3.5 Foreign investments in the world

3.5.1 The general overview of the most powerful regions

Japan, the European Union, and the United States were the most important participants in the international investment market during the past few decades. At the same time the number of international branches, especially in the European Union grew. Accordingly, the parts of foreign shares and stocks have also increased. Nevertheless, the mentioned indices in the United States and Japan decreased. Thanks to long-term economic recession in Asia and more specifically the Japanese market was fortified, and Japan became one of the most important producers of FDI. The United States up until recently have staying global receivables of FDI. The significant role of production of investments in America has traversed to the leading European countries like France and Great Brittan at the beginning of 21st century. It should be noted that the European Union operates with 40% of world FDI in the current century; it takes an important part in foreign investment, and in receiving international capital.

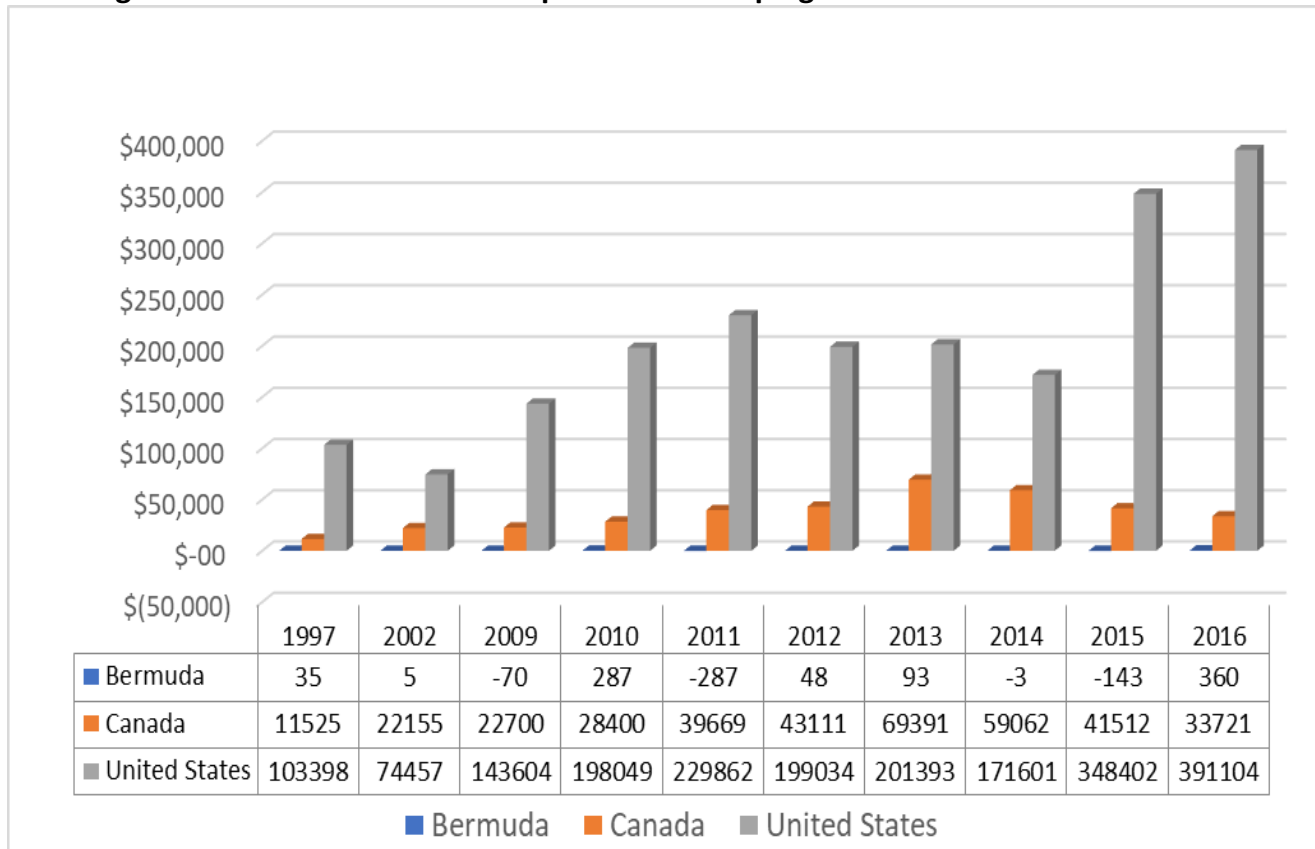
3.6 Analysis of data

3.6.1 Comparison of two North-American developed countries with one developing country

It is an Undeniable fact that the United States is the economic leader in North America. The statistics show that from 2009 to 2016 the number of investments has grown dramatically. If in 2010 the United States had a profit of \$198 049 million, in 2015 it almost doubled up to \$348 402 million. America marked necessary changes in the overall analysis of gain from foreign investments. Canada has taken a prominent position in the investments market during the last few years as well. The money circulation has been achieved at a lower scale – \$28 400 million in 2010. But the tendency to expand is the same as it is in America; it doubled in 2015 to \$41 512 million in 2015 and increased to \$391 104 million in 2016. An absolute contrast of indices was shown by Bermuda, which is the least developed country in its particular region. The visible changes started just from 1997 when the scale of financial investments in Beluga was 35 million. Then the tendency of growing was not continuous, rocketing to 103 million in 1998, it dropped to even \$5 million in 2002. Therefore, Beluga's capital fluctuated dramatically; in 2009 and 2011 the share of foreign investments in the economy became negative, from -\$70 to -\$287 million. Unfortunately, in contrast to leading countries in the Americas, their part in outflows was expanded during the past few years.

2016 has demonstrated a renovation of inward trends in investments sector in Bermuda from negative \$143 in 2015 million to positive \$360 million. In contrast to Canadian indices, which fell by 20% from 2015 to 2016, becoming \$33 721 million.

Figure 1: North American developed and developing economies inward FDI.



Source: UNCTADstat

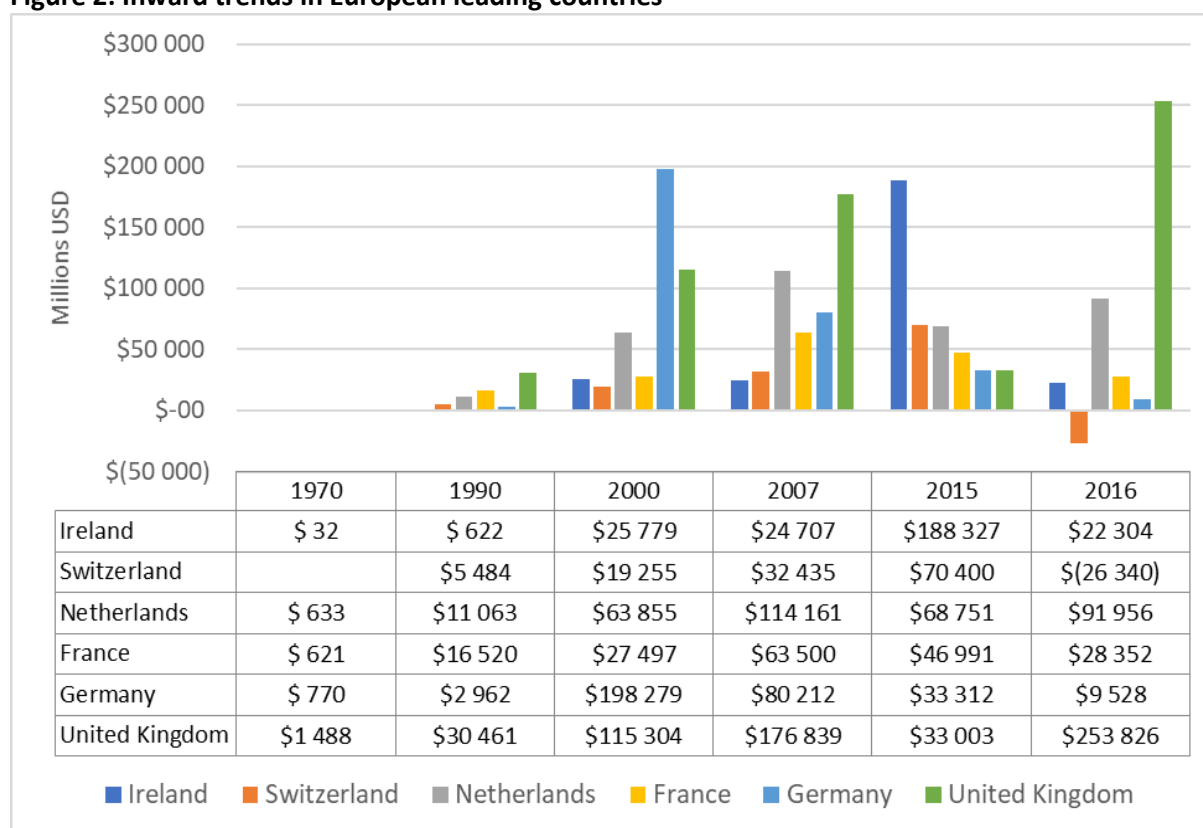
Note: Measure of the graph: \$ in millions

3.6.2 Example of European countries (till 2016)

According to the data, provided by the United Data and Conference on Trade and Development, it is clearly seen that in 1970th the level of foreign investments flows was the highest in Great Brittan and Germany. The mentioned countries, accordingly, have got \$1 488 million and \$770 million. In 1990, the position of leading nations on FDI had changed significantly. Its effects, mainly by French investments, which increased up to \$16 520 million, and the participation of Netherlands in international FDI market has risen to more than \$11 063 million. In spite of sufficient movements of capital in the eastern part of Central Europe, the primacy of England remained the same in 1990; even the profit has swelled to \$30 461 million. However, the popularity of foreign investments was tripled in 2000 compared to the start of the century. Considering the data from 2007, it is visible that British investments picked up at the point of \$176 893 million. According to more recent data, the

amount of money involving in FDI British market has declined sufficiently, it was around \$33 003 million in 2015.

Figure 2: Inward trends in European leading countries



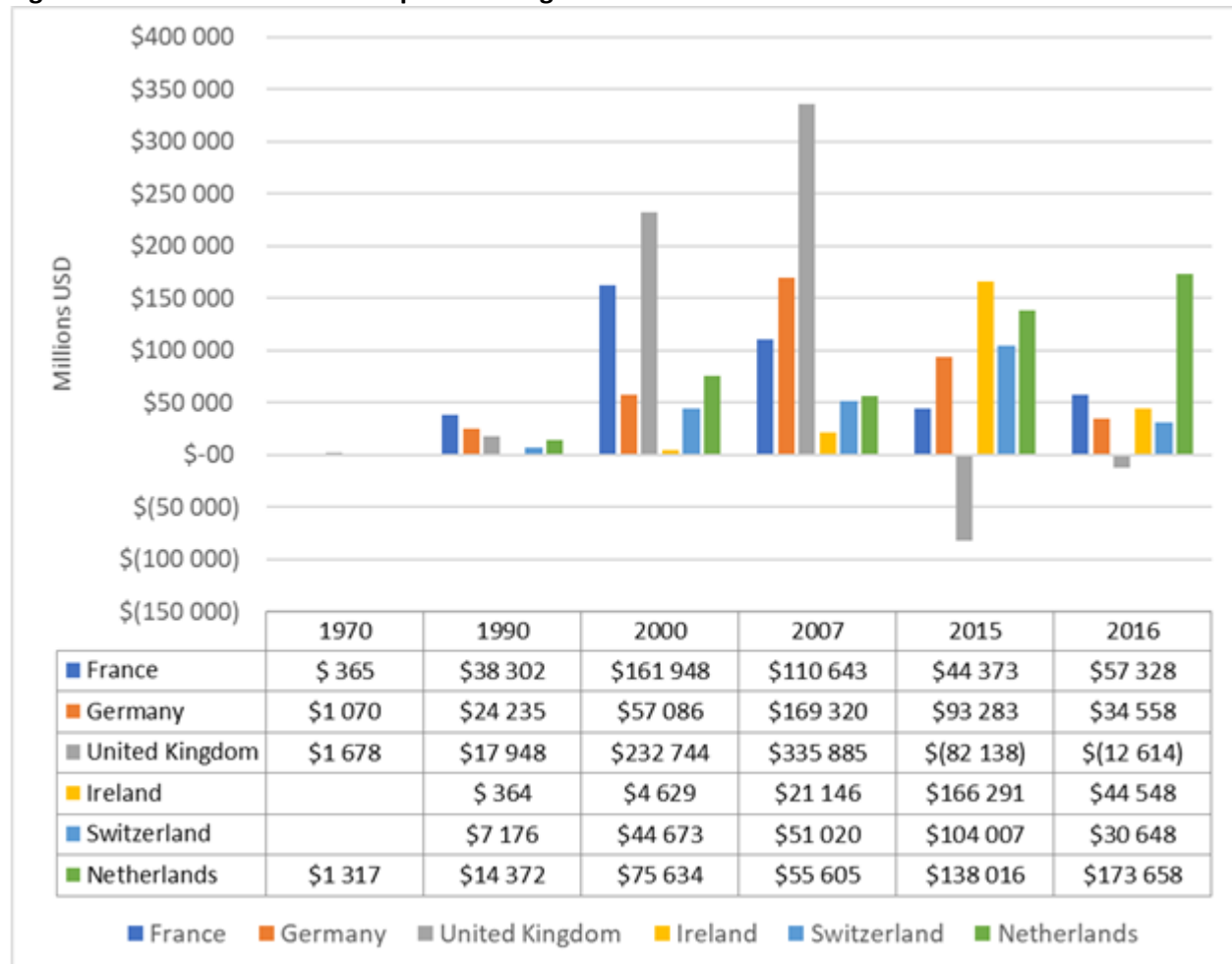
Source: UNCTADstat

The bar chart above demonstrates that first position of Germany, which returned to the highest rates in 2000, the index surged to \$198 279 million. In 2015 the central place in European foreign investments market moved to Ireland and the Netherlands, where the annual profits were \$10 0542 and \$72 649 million.

The most recent USTADSTAT’s statistical data was taken in 2016 shows that due to the changes in the English economy the inward trends climbed up to \$253 826 million when the outward movements gained the negative value. Switzerland's share in international inflows and outflows was significant in 2015 – \$70 400 million was invested in the country. In contrast in 2016, the Swedish inward index dropped dramatically, even achieving a negative index of \$26 340 million. Therefore, the three leading countries in 2016 are the United Kingdom and Netherlands, France, last two gained \$91 956 and \$28 352 million. Those values were more than three times lower than the English index; however, compared to the

number of other developed countries like Germany, which was \$9 528 million, the privilege of the 'trio' is considered.

Figure 3: Outward trends in European leading countries



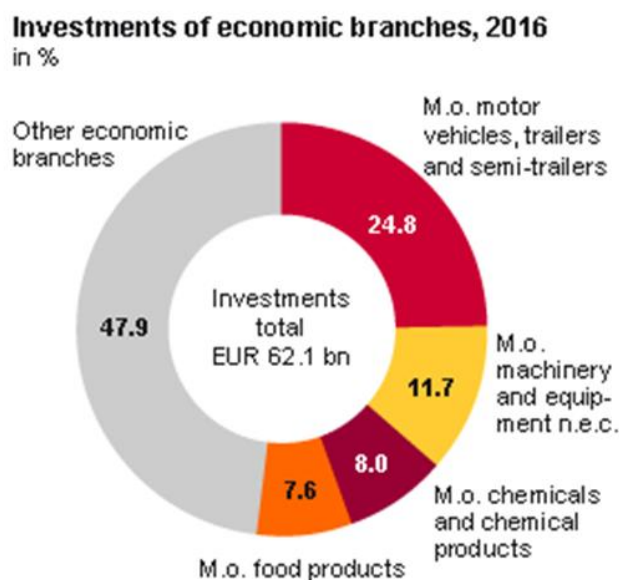
Source: UNCTADstat

The structure of countries, which are leading in the investing in foreign economies, is mostly the same participants. The United Kingdom had the highest results in outward FDI from 1970 to 2014. However, in 1990 Belgium reached \$174 million, which was the greatest of all other European countries. In 2000 France had become the second leading country, sending the capital outside of the country. This year the Netherlands and Belgium attained almost the same level \$75 653 and \$86 362. In 2007 Germany spent \$169 320 million, helping foreign economies. Therefore, it ranked second. Whereas the importance of Spain and Luxemburg in FDI outwards trend has grown since 2015. After Brexit of 2015 Great Brittan’s outside investment level dropped sharply by \$418 023 million. In 2016 it started achieving a somewhat higher amount than 2015 negative \$12 614 million. Nevertheless, United States is considered as the best country in Europe as the World Bank rating of best economies for

starting the new business. In contrast to Ireland and Netherlands, which distributed the most significant amount of resources in foreign countries in 2015. Respectively growing up to \$166 291 and \$138 016 million. In conclusion. It should be noted that the changes of countries' decisions to invest abroad are changing very drastically. It has even been demonstrated by the fact that in 2016 the Netherlands became an absolute leader, spending \$173 658 million. Comparing to Germany \$34 558 million or Ireland \$44 548 million, the difference is noticeable.

3.6.3 Structure of investments of the world leaders

Figure 4 :



© Statistisches Bundesamt (Destatis), 2017

Germany.

The report of the Federal Statistical Office of 2016 shows that the enterprises in Germany have increased the investments up to 62.1 billion or almost 56% of GDP, which is at 2.4 billion higher than in 2015. Considering the German economic branches, the highest percentage of investments contributes to vehicles, trailers, and semi-trailers – 24.8%. The machinery and equipment took almost 12 percent from their performance. Whereas chemicals and chemical products acquired

an 8% increase. The other important sector is the food industry, which has increased by 7.6%. However, the structure of investments in Germany is quite distinctive, which is indicated by covering almost half of diagram dedicated to other economic branches. Those branches are finances, rental and company services, and agriculture.

The United Kingdom.

The other European leader is the United Kingdom, the economy of which corresponds to 80% of GDP. The Main industry sector here is financial services. The second-largest national industry is aerospace engineering. The other important sphere in England is the pharmaceutical industry, which is highly valued in the World. The economic situation in the United Kingdom is also influenced by gas production, especially vast reserves in South East part of the country and North East Scotland. Unfortunately, the end of close cooperation with

the European Union led to a holding of foreign investments. Nevertheless, after Brexit, the country is still expected to have global growth, the financial sector keeps costs low. The manufacturing sector is growing as well as in the majority of European countries. The services, which are experiencing negative growth are in the construction industry, which is expected to be prolonged in 2018. On the other hand, the UK spends just 15% of GDP on their investments. It mostly cooperates with Germany and Italy, investing 17 % from all outside financial activities. Whereas France has 25% and Canada has 22% of the proportion of UK resources.

The United States.

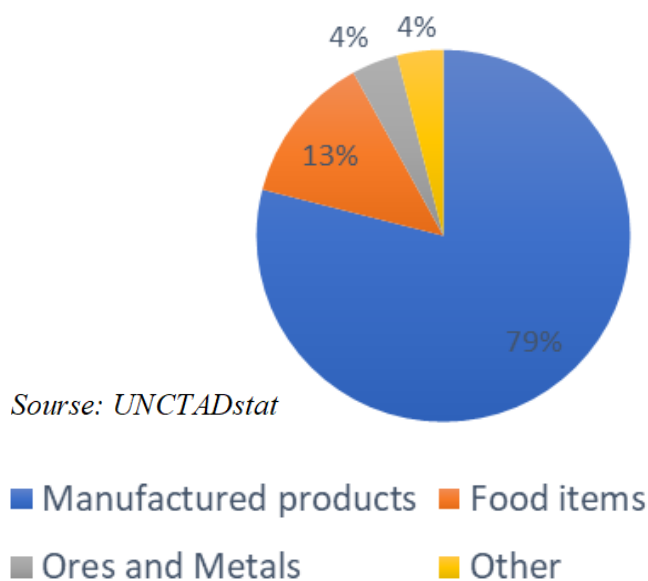
The summarizing of annual performance reports in the US shows that privilege in the industries' division takes Information Technologies – 35%, estimating the situation of 2017 – 2018. The second essential industry is Consumer Discretionary, listing as being 22%, which has the strong impact on the investment structure of the US. 700 stocks show it, which consists of a sufficient amount of mutual funds and ETFs in the mentioned field. The third leading branch is Financials, which makes up 19% of overall industrial performance. There are 936 stocks and around 33 ETFs. The area of the health care sector plays an important role in investment in the US market, proposing more than 1000 stocks. However, in the industrial structure, the Healthcare proportion equals 14%, which is lower than Materials that is at 15%. The contribution in the stocks and mutual funds of Materials' is considerably lower.

3.6.4 Central European Countries

Estimating the current situation in the Central European region, experts could identify the most prospective areas. Today, Czech Republic, Poland, Slovakia, and Hungary attract the most significant number of foreign investors. First of all, thanks to the flourishing economy, especially the presence of multinational companies, which were competing with other European states for many years. The population of that part of Europe is not high, compared to the east part for instance. However, the number of employment propositions are growing every day, opening the prospect of thousands of people. Other regions of Central Europe which include the Ukraine, Romania, Bulgaria, and Croatia have a lot of attractive qualities for future investors, as a variety of natural resources, developing industries and bottom cost of labor, but these Post-Soviet countries do not have a precise plan for attracting of foreign capitals.

Taking as an example, Poland, where machinery, electricity are important industries. Nevertheless, the structure of export by-product, analyzing the data from 2015, is mainly concentrated on manufactured products - 79%. The food items take around 13%, having an essential role in country's economy. Whereas in the Czech Republic the manufacturing sector achieves 89%. The principal industries of the region are concurrent with Polish one, except the critical role of chemistry.

Figure 5: Industries of Central European states (percentage of total exports)

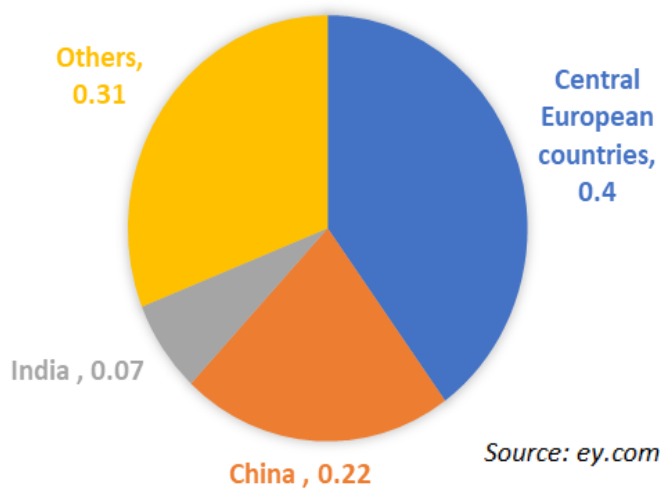


Source: UNCTADstat

After joining of European Union, the regional integration of Poland was accelerated. As well as the trade borders, thanks to European Free Trade Agreement. That union has improved the trade relationships and economy in the Czech Republic and Slovakia as well. Moreover, according to the data from the European intelligence unit during the last century, usually manufactured goods were replaced by service industries,

especially IT technologies, banking, and finance. However, as in Poland, in the Czech Republic and Slovakia, the privilege of the manufactured product's production returned to the same position within recent years.

Figure 6: Survey "the most Favorable Investment Region in 2005."



Source: ey.com

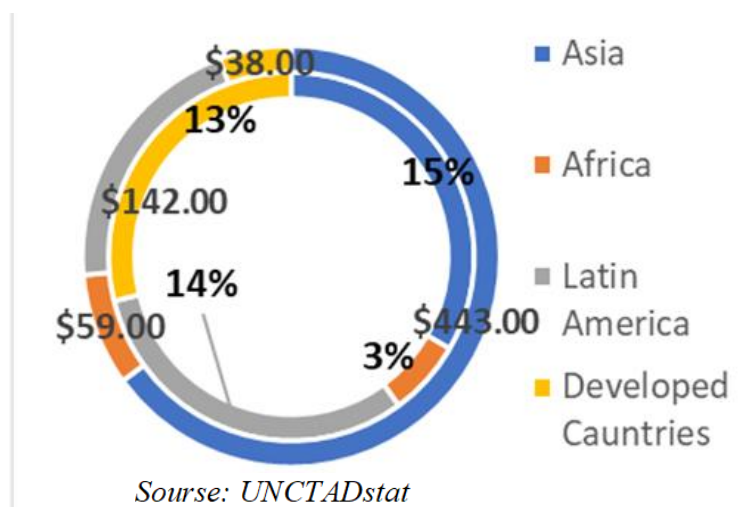
According to the survey, which was organized by the 'Ernst & Young's European Attractiveness Survey' in 2005, around 40% of respondents have chosen central Europe, including the Czech Republic, Slovakia, Estonia, Latvia, Hungary, Slovenia, Lithuania and Poland as the most favorable regions for investments in manufacturing

industries. In contrast, just 22% of them preferred China, and only 7% of people choose India. Of course, today investors prefer to select the most economically stable, progressive in technology, natural resources, possessing skilled labor and innovative countries. Due to the Most recent research of “USA News” the first place in "best countries to invest in" has Switzerland, the second is taken by Canada, the third – Germany, the fourth - United Kingdom, and the fifth country mostly attracting the foreign investments in Japan.

3.6.5 The recent report: trends of FDI in the World

Figure 7: Last investment World indices (measure trillions USD)

In spite of the information mentioned above, the latest report of 2017 UNCTADstat demonstrates an overall decreasing trend – 2% to 1,75 trillion in the world in 2016. The structure is represented by developed economies, transition economies, and emerging economies.



Traditionally, the developed countries' resources circulation is the biggest - \$ 1,032 trillion. Next, the developing states used \$645 trillion. Asia has received 15% fewer investments; they have changed their situation noticeably, sometimes the percentage has even doubled in all the Asian regions except the Southern portion. The African constituent took in just 3%, which created the drop in prices of raw materials. The inflows into Latin America decreased by 14% due to the economic recession, commodity prices and exports fall. Then the other 68% has remained in the transition economies. The global reason for the subsequent decline is the minor progress, 13% investments ‘drop in developed countries– main suppliers to the whole economy.’

3.6.6 The key features of the countries for the attractiveness of foreign investments.

All of the industrial companies tend to choose the country and particular place for investments, considering specific factors. The features of it depend, basically, on the type of goods they are going to produce and the strategy they follow. But despite the sphere of work

of the investors, the majority of them tend to pay attention to the accessibility of the transport system. It is an undeniable fact that all of the goods should have an efficient transportation system. Therefore, an extensive railway network would become a competitive feature of the region for investors. The level of education in the country generally reflects any company, working on an international level. Because it is directly connected with the quality of labor, and accordingly, efficiently working with staff for future promotions. Moreover, each investor gravitates to increase profits and to minimize the senseless losses. That's why often objects of foreign investors become the countries that have favorable tax policies.

Taxes in central Europe are somewhat lower than in the most progressive countries like Germany or France. Germany is the biggest trade partner of the Czech Republic and Poland. For instance, the transfer tax in the Czech Republic is 3 %, when in Hungary it is just slightly higher. Mostly, in the Czech Republic, Poland, Romania, Hungary and Slovakia the real estate tax depends on the part of the location and the building, the size of the territory. Usually, the real estate tax is paid annually. Romania has the lowest rate of notaries -around 0.44 – 2.2 USD. Contrasting to Slovakia, where there aren't any tax payments for real estate purchase at all. Nevertheless, comparing the value-added tax, the highest one is in Hungary and Poland, 25% and 23%, the others establish the 20% VAT rate. The corporation tax is traditionally the smallest Romania – 16%, comparing to 19% of others. The recent surveys show that the best working conditions are organized in the Czech Republic, as the tax for personal income is just 15% comparing to 18-20% in other regions.

4 Practical Part: Ukraine

4.1 General description of the Ukrainian economy

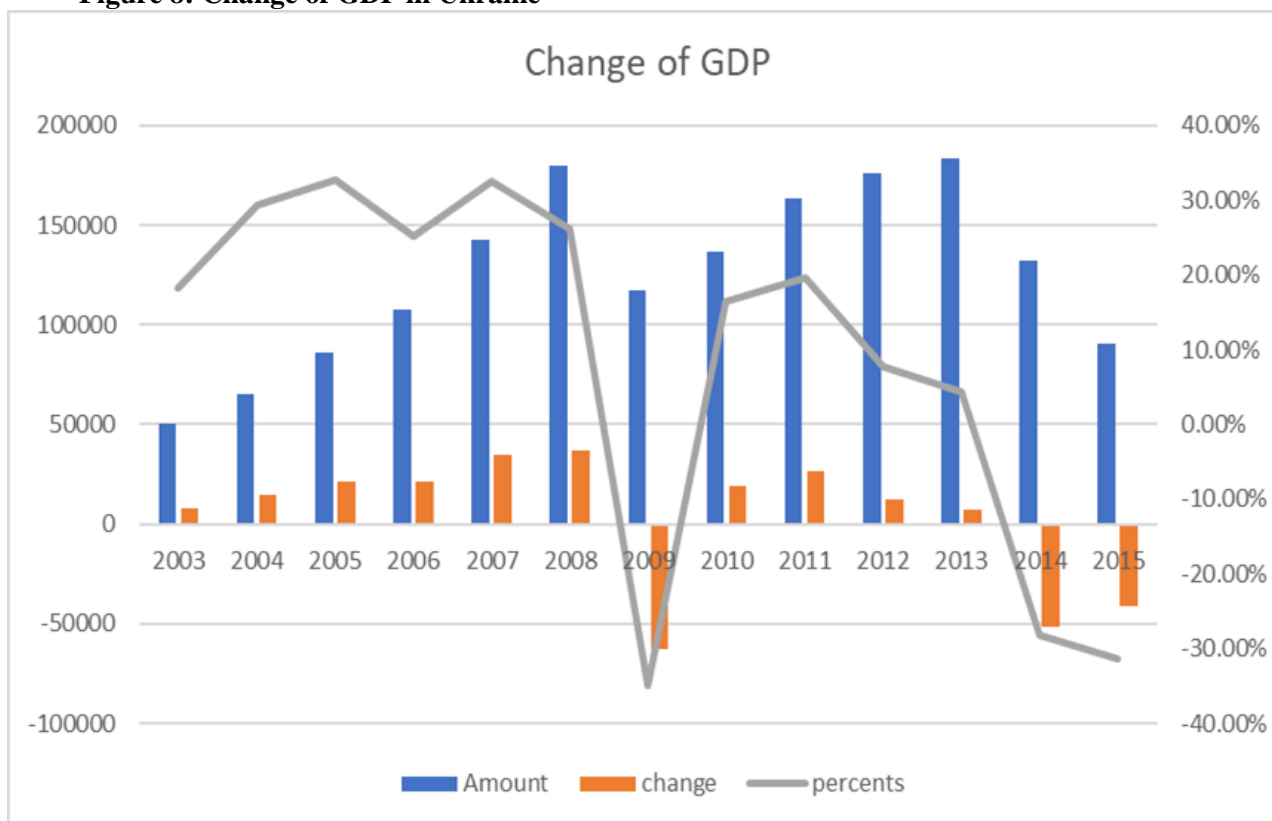
Ukraine is the state, with 603 628 km² is the biggest country in Europe. The Ukrainian territory is densely populated – 45 million (2016). Exploring the content of the Soviet Union's economy, Ukraine was an agrarian leader, which provided all constituents of the union raw materials. Ukraine has presented the ¼ of the Agrarian output of the Union. The privilege of mining and presence of black fertile was a significant advantage of the Ukrainian economy. Estimating the economic indices of 2016 takes 133th place in the World, due to the overall size of GDP - 93.27 billion USD. It is widely believed – that the index of GDP – gross domestic product, brightly demonstrates the economic situation in the country. Because it is a macroeconomic indicator reflecting the market value of all final goods and services produced in a year in all sectors of the economy on the territory of the state for consumption, export, and accumulation, regardless of the nationality of the factors used Production. The dynamics of changing the GDP had the minimum indices during the 2014-2015. Taking to attention the dollar counts it is clearly seen that difference in 28% make economies suffer. Nevertheless, the GPD of the Ukraine is gradually arriving at norms thanks to efforts of the new government and banking structure. Ukraine has established its purposes of how to become a prosperous European state. The international monetary fund has worked out the plan to achieve the economic stability and defense of the financial sector.

The graph also shows the noticeable descent in 2009, and the percentage fall was around 34%. Such risk differences in indices are considered because of a significant number of factors. Firstly, Ukraine as a lot of post-Soviet Union countries went through a hard-economic depression after the dissociation of the Soviet Union. The sharp fall of the Ukrainian economy was supplemented by hyperinflation and an incredible descent of GDP, especially in 2009, which is clearly seen in the graph. Nevertheless, in 2000, the expanding of key industries and amelioration of work productivity replaced the problematic economic situation. Moreover, according to statistical data from the National Ukrainian Bank, almost 90% of business firms have changed their form of property. As a result, more and more public properties were privatizing from 2000 to 2007.

The World economic crisis of 2008 has had a significant influence on the Ukrainian currency. The rate of "hryvnia" has dropped twice compared to the US dollar.

As a result, the international organization – IMF started encouraging the Ukrainian government to make more efforts for economic reforms, focusing on accelerating economic growth. Unfortunately, this has allowed the shadow economy to flourish, because of cutting of custom and tax privileges in the law and budget.

Figure 8: Change of GDP in Ukraine



Source: NBU

Note: Amount is given in Billions USD (separation – 3 digits after a comma)

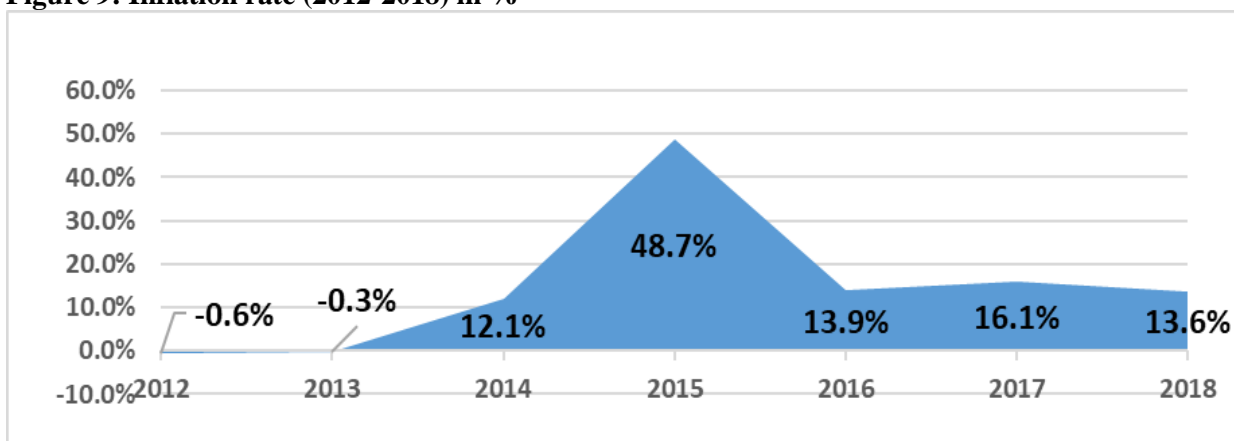
4.1.1 The political and economic issues

The main reason of descent in 2014 and 2015 is the recent conflict in the East part of Ukraine and annexation of Crimea in 2014, which deprives the Ukraine of the sterling which functions at the center of heavy industry – Donbas and recreation area and tourism development in south part of the country. The disruption of the relationship between the Ukraine and the Russian Federation were utterly destroyed by the aggressive movements, which include the military conflict. It is widely believed that in 2014 the political conflict between these states, the in compliance of population and authority encouraged people to start a revolution. The revolution has received the name "Revolution of Dignity." It has involved more than one hundred victims, who struggled for the freedom to unite Ukraine and the development of a European state. Especially after the mentioned actions of the south and east parts of the

Ukraine start being occupied by the Russian government. Thus, the leading industries of Ukrainian economy – agricultural and heavy industry have lost a considerable part of the territory; the volume of production has dropped as well. Once the new authority was selected, and political problems have become evident, the economic sector of the Ukraine was faced with the weakness of the economic sector. The main issues of 2015-2016 are corruption, and the production fails including the absence of workplaces and the inflation of the Ukrainian currency. Comparing to 2006, when one 1\$ was equal to around 5 Ukrainian Hryvnias, today it is fluctuating between 27 – 28 Hryvnias.

The decrease in value of the Ukrainian national currency has achieved the highest point in 2015 – almost 49%. The graph below summarizes the data about inflation from the European Commission and recent indices from „tradingeconomics.com."

Figure 9: Inflation rate (2012-2018) in %



Source: TradeEconomics

Such complex conditions in the Ukraine have led to the strict economic plan of economic development. According to this plan in 2015, the sufficient numbers of insolvent financial institutions were driven from the market. The process of recapitalization has started as well. 2016 became an important year for the program of protecting consumers, lenders, and investors. In spite of the closing of a considerable number of foreign businesses and the Ukrainian banks in 2016 the procedure of overall restoring lending had started. Financial structures and authority have been gradually regaining their trust. Nevertheless, the sufficient loss of territory and the infrastructure in the Ukrainian capital, even west and northeastern regions have developed.

4.1.2 Current state and perspectives

Circumstances of 2017 Ukrainian indices are started developing again. According to the research of the International bank and European financial structures, the Ukrainian GDP should grow at least by 2%, while Ukrainian experts' exploration proves the fact that it may grow up to 3% by 2018. Nevertheless, today Ukraine needs international investments and reforms, which should become the basis of the future regeneration of the economy. The positive changes of cooperation of Ukraine and the European Union supported by the agreement of association with Europe and the recent cancellation of the Visa regime between Ukraine and countries of Schengen zone. The sincere desire of the Ukrainian population to become part of Europe needs a lot of efforts of authority and an economic sphere of Ukraine, but the first step occurred on the 11th of June 2017. The researchers also have noticed that Ukraine is the first country, which receives free visa regime with the European Union while the current military situation is occurring.

In 2018 the Ukrainian national bank is planning to work on the increase of long-term recourses. The efforts connected to Access growth could help to attract more external and internal investors. It leads to the development of Capital markets. The 2016-2017 years showed the increase in investment demand and the overall financial activity. Notably, the sustainable investment demand was demonstrated by the agrarian sector, the volumes of production have grown to 6,1 %. The high harvest of cereals 66,1 billion of tone furthered this production changes. Substantially increased investment in specific sectors including food production. The building of transport infrastructure and shrink development of housing consisted 17, 5 % of all construction in 2016. The private consumption of the Ukrainian population has increased as well. Meanwhile, the utility tariffs have become less accessible for the citizens of the Ukraine. Also, the level of unemployment remains relatively high. However, compared to 2015, in 2016 the number of workplaces was 6,2 % higher. Accordingly, the burden for one employee decreased 16 times in 2016. It is necessary to mention the growth of indices of wholesalers in Ukraine, which made the Ukrainian market somewhat stronger. Therefore, the revival of the whole economy encourages the development of various financial structures and other industries.

On the other hand, the mentioned perspective can't be entirely implemented because of recent inflation rate takeoff. The escalation of Russia is still continuing as well as the conflict on the Eastern part of the Ukrainian territories. The presence of state debt, growing during the years

produces the fiscal deficit. Therefore, the insures in government spending disrupt the qualitative functioning of the economy.

4.2 Industrial development

In Ukraine the metallurgical industry takes a crucial economic role (17,4%). The experts define engineering as well, ferrous and nonferrous metallurgy, shipbuilding, and production of buses, cars and trucks as the most influential spheres of production. In spite of the sufficient number of factors, confirming the difficulties in the development of the Ukrainian economy, the diversity of industries exists the potential investors. Except for the already mentioned industries, in the Ukraine locomotives, turbines, various machine tools, and even aircraft are produced. Ukrainian missiles are still used even by American countries to perform various scientific experiments. The number of factories and natural resources is noticeable. Therefore, the Ukraine can be engaged in extractive industry (20,8%), particularly oil, gas and chemical production (6,7%). In spite of the great catastrophe that took place at Chernobyl, the power of electrostatics is still considered very high compared to other post-soviet states. What is more, the production of aircraft is performing according to up-to-date technologies, which is suited to the newest world standards. For instance, the models 'AN' of Ukrainian aircraft is still being produced and are transporting people from many Asian countries nowadays.

Figure 10: Structure of Ukrainian industries

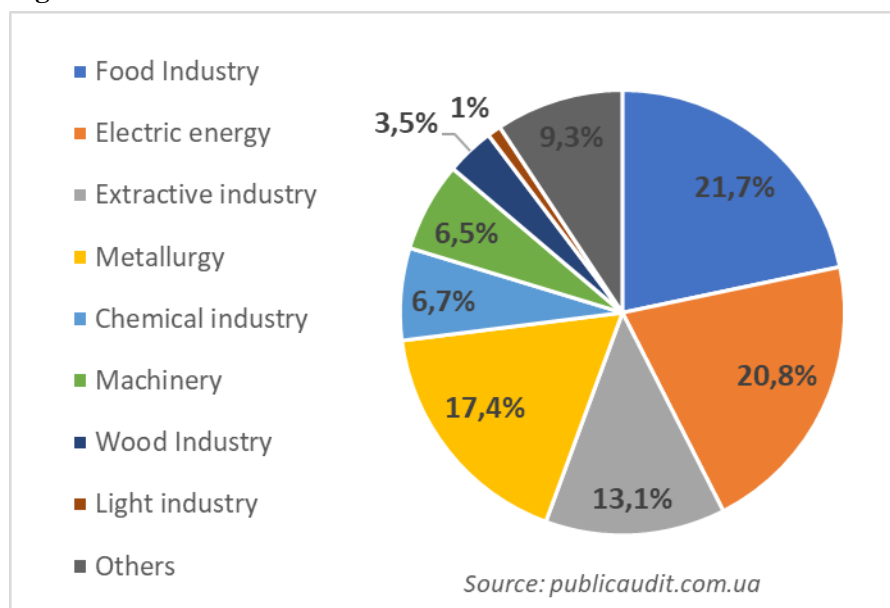


Table 1: GDP by sector

Agriculture	14,0%
Industry	27,8%
Servises	58,7%

Source: Index Mundi

The agricultural sector in the Ukraine historically was one of the most important sources of profit. (Ukraine is a huge country, which is considerably bigger than other Slavic countries

such as the Czech Republic or Hungary, the square is equal 60300km². Therefore, the number of hectares, used for agricultural purposes is magnificent – 42 210 hectares. It is widely known that the Ukraine is an incredibly powerful producer of sugar, because of the vast territory, which is used to grow of sugar beets. Moreover, in the Ukraine, vast amounts of sunflower oil are produced, which is imported to dozens of countries. The agriculture of Ukraine also provides the world population with wheat, barley, potatoes and even corn. It has contributed to the privilege of the food industry: 21,7% in the general industrial structure. The Ukraine always was a transit country, on which half its territory is crossed for the primary transport connections of Europe. That is why the transport network is expanding every day; railway, river, and sea have become a source of transportation of goods. Sufficient water canals are Dnipro and Desna. The presence of the Black Sea near the Crimea region gives the Ukraine more opportunities for cooperation with Turkey and Bulgaria.

4.3 Ukrainian trade

4.3.1 General factors of trade affecting the last Ukrainian trade rate

Trade – is an exchange of goods and services, which represent a sufficient share in GDP. The most important trade indices for the country are imports and exports of goods and services. In the Ukraine, such indices equal, respectively, to 56,4 % of the Country's GDP (93.27 billion) according to the statistics of 2016.

For the internal development of wholesale and retailing within country's boundaries is used the term domestic trade. Domestic trading is an irreplaceable factor in a healthy economy, which effects the employment rate, the standard of living and the competitive amount of raw materials that are extracted and sold. Today, thanks to Globalization and the improvement of international transportation trade has become an advanced part of the trade system. The exchange of goods and services out if the country borders are more expensive due to the cost of additional tariffs. However, national trade level effects to the country's current account are exports and imports indices.

The unique factor of international trade is Purchasing power parity. The parity of purchasing power is the number of currency units needed to purchase the same amount of goods and services on the domestic market that the US dollar can buy in the United States. Respectively it means that it is counted from GDP. In the Ukraine, the last index of PPP equals \$366.4 billion (2017 est.) It also characterizes the welfare per capita, resources, and conditions

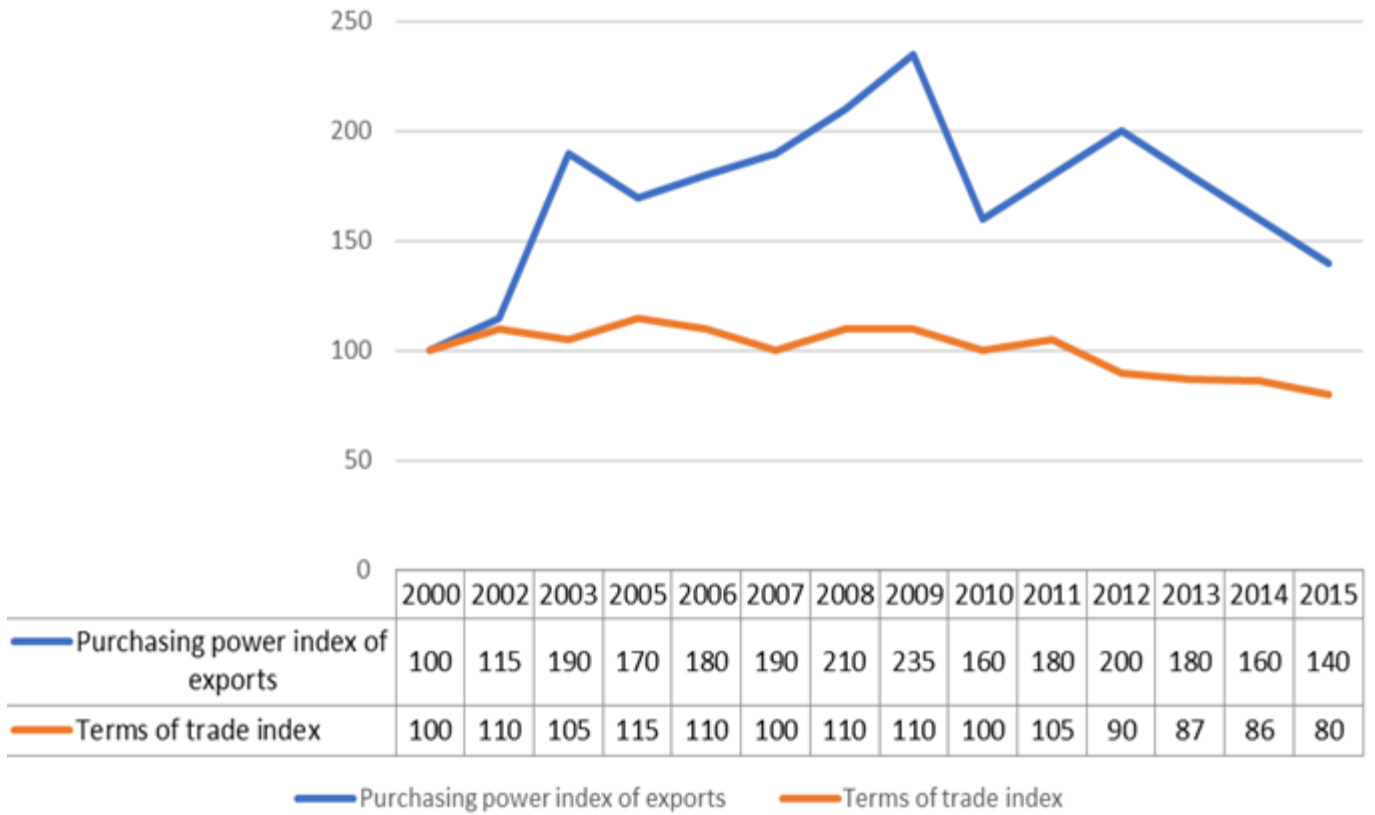
comparing to those equivalent in the US. Sometimes, in developing countries, the PPP estimates the small or different set of good and resources, due to the absence of direct equivalent.

Economic science is used to measure – terms of trade. Terms of trade are the ratio between exported goods prices and imported prices. In other words, "which amount of goods which can be introduced into the economy per unit of goods, which are exporting. The terms of trade that improves when the export prices increase faster than imports. Therefore, the country may collect more funds and progress economically. However, the decisive factor is the price elasticity of demand for exports and imports. For example, if the demand for exports is elastic in price, then the price increase (which makes the country's export less competitive in the world market) will lead to a decrease in exports and a reduction in foreign exchange earnings. This will have a negative impact on production and employment within the country. The constituents of merchandise trade as an export and import determine the situation in foreign trade and closely connect to foreign direct investments. The difference between imports and export of goods is identified by Merchandise trade balance. This balance shows the level of country's competitiveness and rationality of products and services distribution.

4.3.2 Change of trade indices in Ukraine

Estimating the current state of the Ukrainian economy, it is impossible to argue with the downward trend of trade indices. The level of the trade indices slightly fluctuated between 2000 and 2012. Then the considerable decrease was started approximately in 2013. Absolutely contrast data is demonstrated by the rate of purchasing power of exports. It was growing from 200 to 2005, the point, in the beginning, was 100 million dollars, and in 2004 it achieved the point of 200. After the small fall between 2006 and 2007, it peaked at the point of 230 million in 2008. After the economic crisis, the purchasing power index collapsed to 160 million. However, in 2012 it arrived at the same position as it achieved in 2004. Unfortunately, from 2012 the continuous trend of the temple has not been retained until today.

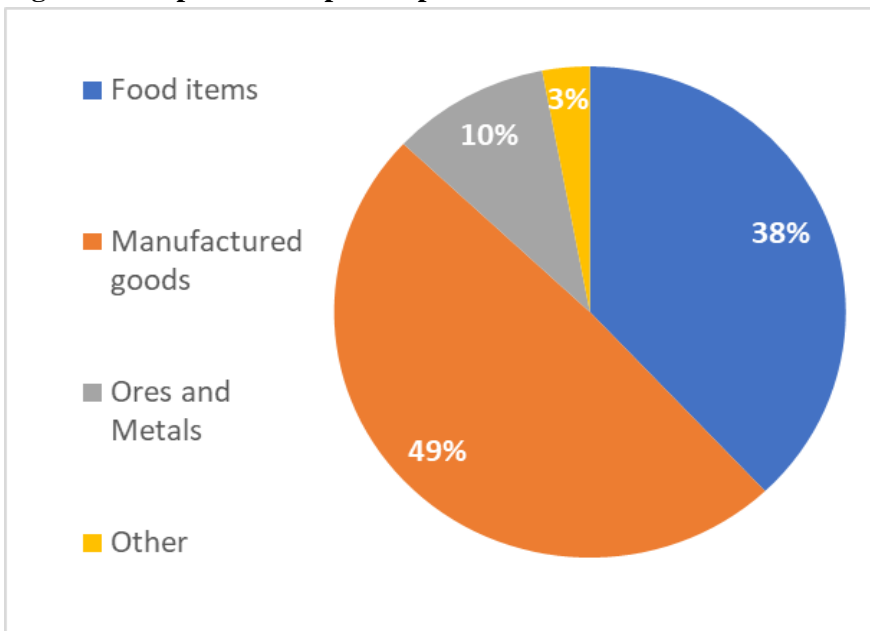
Figure 11: Change of trade indices and purchasing power of Ukraine



Source: UNCTADstat

The structure of export by-products has many coincident qualities as in Slovakia, Poland the Czech Republic. Firstly, the percentage of manufactured goods occupy the half of whole exports structure, due to statistics of 2015. The food items at 38%. In spite of crucial industries of Ukraine, the exportation of ores and metals makes up just 10%.

Figure 12: Export and import of products



Source: UNCTADstat

If the total merchandise exports in 2005 were around \$34 228 million, then the purchasing power increased in 2010, and the index of export achieved was \$51 478 million. Even though in 2014 it rose to \$54 199 million. But in 2015 the situation has spoiled, and the general export rate was reduced to \$37 858 million. Speaking about the import level, the index from 2005 and 2015 is very similar. The year of the best point for imports concurs with exports but attains \$60911 million. Whereas the merchandise trade balance was negative during 2005, 2010, 2014, only during the last year, it becomes \$1 542 million. The previous year about which the International Statistical sources present the information is 2016. It's clearly seen from the "table 1" - imports continued to grow, increasing by \$2 874 million. The level of exports also increased slightly by \$1 495 million.

Table 2: Total merchandise trade (measure - millions USD)

Year	2005	2010	2014	2015	2016
Merchandise exports	34 228	51 478	54 199	37 859	36 364
Merchandise imports	36 136	60 911	54 330	36 317	39 151
Merchandise trade balance	-1 908	-9 433	-131	1 542	-2 787

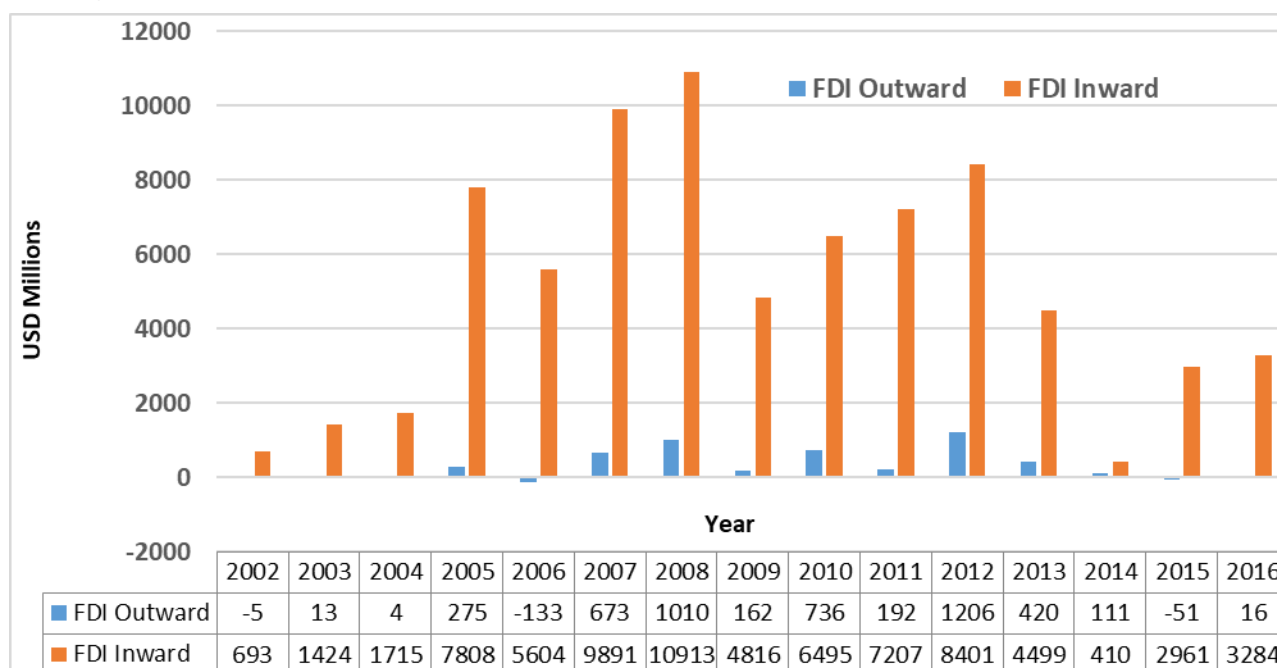
Source: UNCTADstat

Due to the merchandise trade balance, the trade deficit is considered in Ukraine during the last ten years. The tendency of importing more foreign goods to the country has changed the merchandise price index to negative \$1 908 million in 2005. In 2010 it recorded a high of \$9 433 million. But from 2014 the merchandise index started stabilizing, even achieved the surplus - \$1 543 million. Nevertheless in 2016 demand for Ukrainian goods on foreign companies has dropped and merchandise index arrived at the negative point of \$ 2 787 million.

The other important indicator of trade is trade partner. In spite of military conflict, the Russian Federation remains the greatest trade partner of Ukraine, exporting \$3 582 million. The second important partner was Egypt in 2016, which export index is \$2 260 million. From European countries, the closes cooperation was Established with Italy and Poland, where export, respectively \$2 194 and \$1 947. Turkey also traditionally perform high amount of exports in Ukraine, the index is \$2 043 million.

4.4 Trends of FDI in Ukraine

Figure 13: FDI Outflows and Inflows in Ukraine



Source: NBU

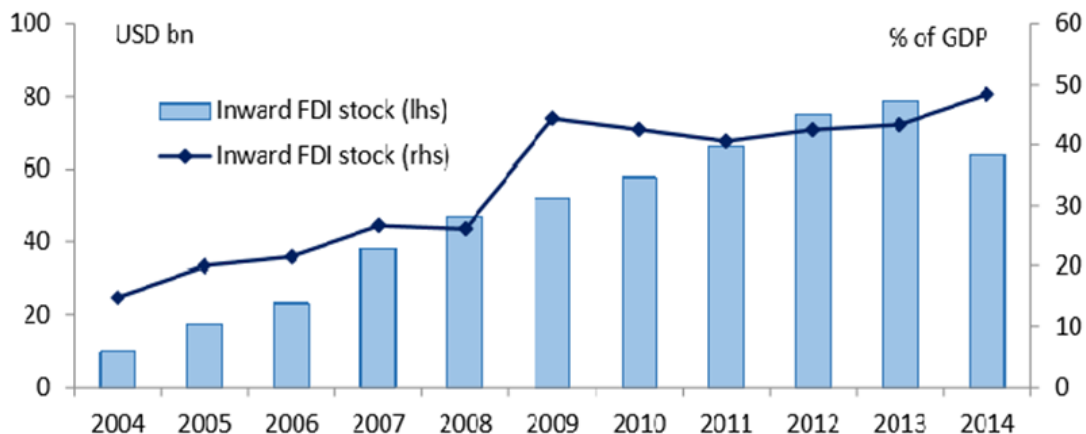
Due to the report of the National Ukrainian bank the rates of inflows plummeted in the period from 2002 to 2005, the indices have changed dramatically from less than \$100 million to \$7808 million. The significant change by \$6 093 occurred from 2004 till 2005.

Then, \$5904 million in 2006 failed the mentioned achievements. After such a noticeable increase, the experts tend to define the period of “Recovery” from 2006 to 2008. The widely believed crisis produced the decline in all economic spheres of the country, respectively the rate of FDI dropped to \$4 816 million in 2009. Next to the crisis, the Inward trends started growing gradually during the next three years, achieving the index of \$8 401 million in 2012. Next to the positive change of results the researches distinguish the rapid ‘Decline’ from 2013, because of regulatory changes and the military conflict in the Eastern part of the Ukraine. By comparing the following data with the information from UNCTADstat, the main trends are the same. However, after 2007 the data about outward and inward indices started having the differences up to \$500 million. For instance, the negative rate of - \$51 million outward investments was not considered by international Statistic sources in 2015.

Moreover, the trends of outward investments in general the experts consider insufficient comparing to foreign resources contribution in Ukraine. But it should be acknowledged that the indices of the 12-year period show the amounts less than \$20 million as in 2002-2004 as

within last two years of the analyzed period. Except 2015 the negative result of -133 is shown in 2006. Even so the highest ability to invest in foreign economies Ukraine gas in 2008 - \$1 010 million and in 2012 - \$1 206 million.

Figure 14: Inward FDI (USD and % of GDP)



Source: NBU

Figure 14 reveals a more accurate description of the Inward part of investments considering the share of FDI inward stock in GDP.

In contrast to the fluctuation of overall GDP, the rates of Inward FDI stock is characterized by a continuous increase during the ten years from 2004 to 2014. The gradual development is considered, especially in 2004, if in 2004 it took 10%, in 2005 – around 20, 30% in 2007. Despite the global economic drop during 2008, the rates of global FDI stock jumped from the point of 30% to 48%. Due to such doubling inward FDI stock, it stabilized at the achieved point and 40-45%.

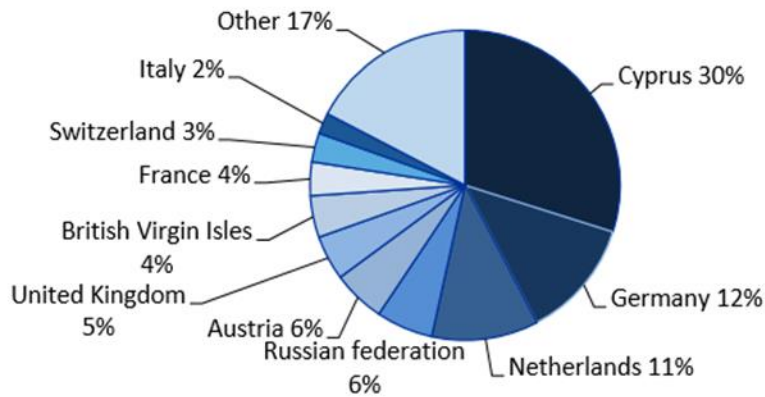
In this period the recapitalization of banks, having foreign investors reinforced the mentioned changes. As other macroeconomic indices, the inward trends were falling in 2014, and the recovery has been started from 2015.

4.4.1 Direct investment from countries of the world to the Ukrainian economy

The data about main international FDI partners of the Ukraine defines Turkey and the Russian Federation. Accordingly, looking at the structure of Inwards into Ukrainian economy by country, it shows the most eminent position of Cyprus. Surprisingly, that the third and second place was taken by such influential nations as Germany and Netherlands, 11% and 12%. The half of this amount of invested recourses was provided by the Russian Federation and Austria

in 2014. The other economically stable countries as the United The United Kingdom and France also invested a sufficient proportion of the FDI Ukrainian stock.

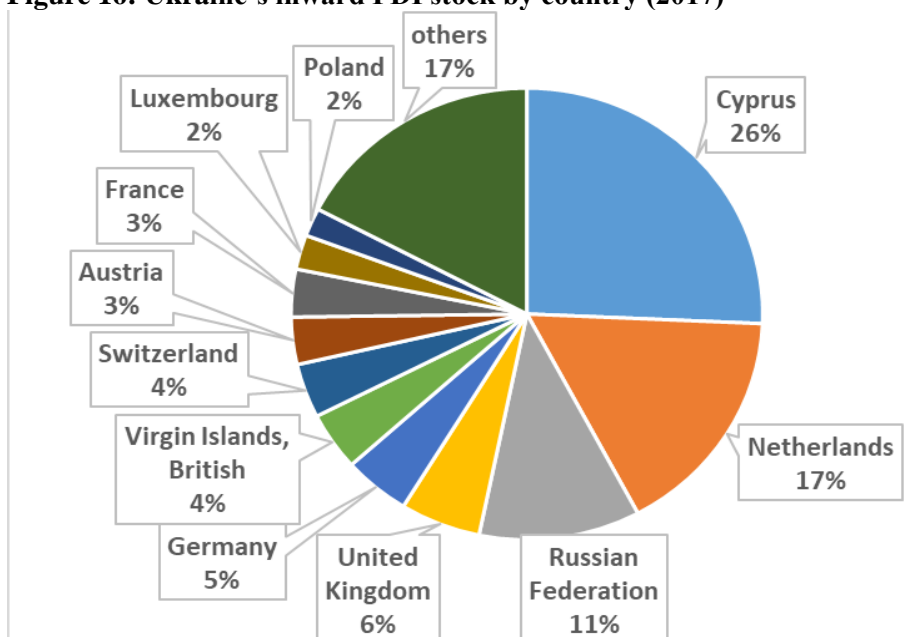
Figure 15: Ukraine’s inward FDI stock by country (2014)



Source: Ukrstat

In 2017 the situation was slightly changed. Cyprus had remained the biggest investor. But The second place investments was transmitted from Germany to the Netherlands. When the Netherlands' inward trends almost doubled, German investment was divided by two comparing to 2014. In spite of political issues, the FDI from Russian Federation (2017) increased by 7%, exchanging the second place with Germany (2014). The share in the United Kingdom increased by 1 %, achieving third place in the Ukrainian investment structure.

Figure 16: Ukraine’s inward FDI stock by country (2017)



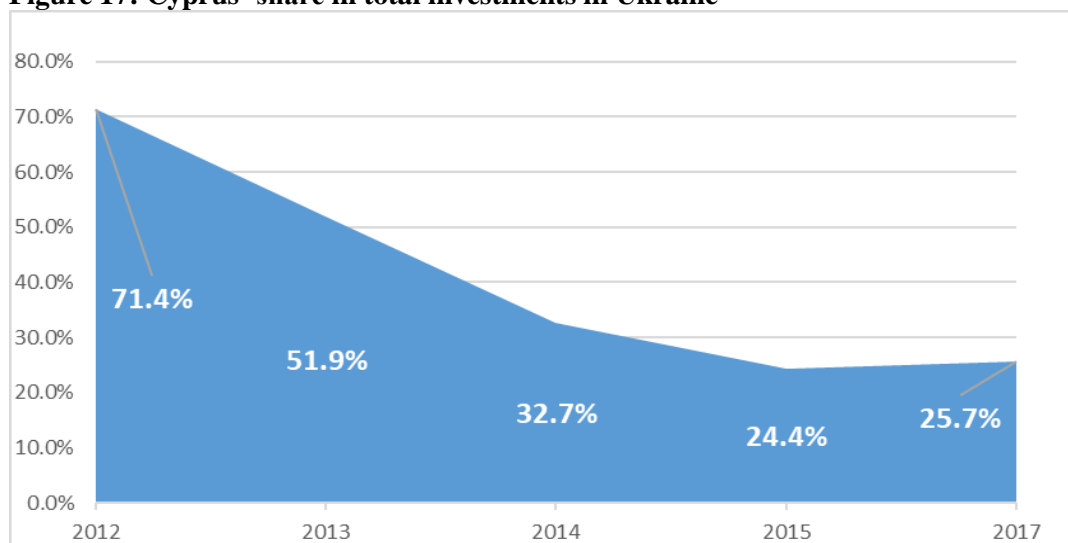
Source: Ukrstat

Luxemburg replaced Italian 2% of investments; the same percentage was invested by Poland. Unfortunately, French investments slightly decreased, and Austrian has become two times lower. The parts of Virgin Islands, British and other countries remained the same in 2017.

4.4.2 Specificity of Cyprus investments

During the last six years, Cyprus has remained the principal owner of foreign investment structure. Looking at the graph, we can see that the 2012 share of Cyprus's investments was 71.4% of the total volume of foreign direct investment. In 2013, their contribution decreased to 52.9%. After the beginning of the armed conflict, the amount of investment from Cyprus declined the most in 2014. It dropped from 32.7% to 24.4% in 2015. However, during last (2017) year, the relationship with Cyprus investors started renovating, and the investment index increased by 1,3%. As well as the share of participation of the Russian Federation in the overall FDI structure.

Figure 17: Cyprus' share in total investments in Ukraine



Source: Ukrstat

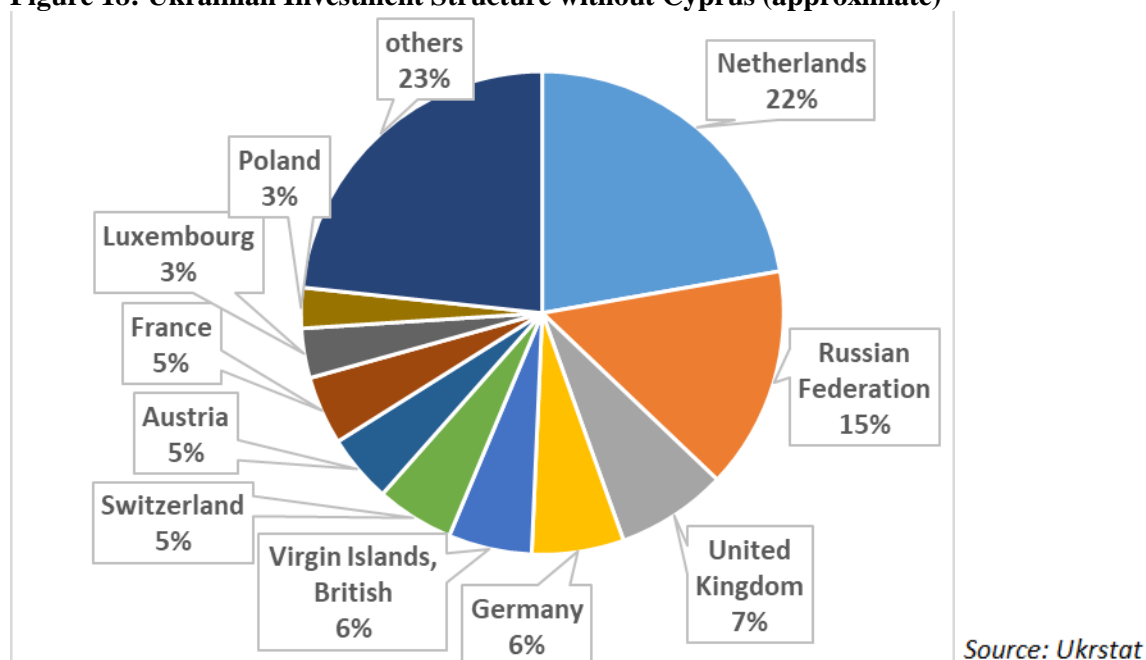
These changes are intimately connected with fact, that a high proportion of the Cyprus investment capitals have Russian origins. The owners of these capitals are using companies in Cyprus to optimize taxation and get specific legal status. It happened because Cyprus was always considered as a territory with the lowest tax rate and thus had beneficial conditions for foreign businesses. One of the main factors was the signing of an agreement between USSR and Cyprus in 1983, which made investors unmatched, with no withholding tax charges on dividends. Therefore, a lot of Ukrainian businesses reinvested to Cyprus, being afraid of instability in the banking system, the absence of accountability of the national currency and any support of business from the government in 2012. Cyprus attracted them by offshore

services, especially trusts. The German experts tend to call such reinvestment – "round-tripping" of Ukrainian financial resources.

Some foreign investors also decided to transport their capitals to Cyprus in order to guide them to the Ukraine. Unfortunately, these conditions were widely used by dishonest government figures from the Ukraine and the Russian Federation. Some information sources say that money; inferential from the national budget of Ukraine was saved under the shelter of Cyprus companies. It is confirmed by Cyprus annual reports and data from its National bank, which shows that the Ukraine takes a tiny share of inward and outward investments in Cyprus. African and Asian countries performed the significant part of inflows. When the Cyprus economy officially reported a large number of outward stocks, transporting to the Netherlands, Ireland, Hungary, Mozambique and some Western-African states according to statistics of 2016. Various machinations with material recourses encouraged other European countries to break down the relationships with Cyprus's business in 2014. However, nowadays the tendency of registering companies in Cyprus by European investors has started renovating, creating the bubble of financial resources, which then redirected outside of Cyprus.

Therefore, it is logical to analyse the structure of investments in the Ukraine, excluding the Cyprus share to realize real participation of foreign countries in the Ukrainian economy.

Figure 18: Ukrainian Investment Structure without Cyprus (approximate)



Due to my research, excluding Cyprus, the shares of other leading investing countries will increase respectively. Therefore, we can define the Netherlands as a European leader in FDI

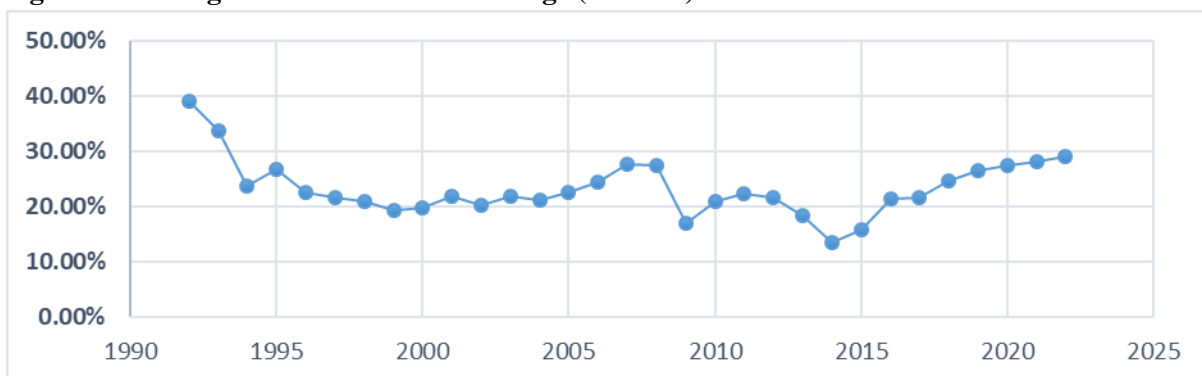
in Ukraine, achieving 22%. The Russian Federation will probably have 15% of Ukrainian investments, taking a secure second place. The order of participation of other countries has not changed, but each percentage is more significant on 1-2% according to the proportion of overall investments.

4.4.3 The FDI outcome and comparison with central European states

The German experts from the consulting groups tend to compare to the Ukraine with Romania and Poland. According to the statistics of 2014, the overall inward stock of Ukraine was the highest among the analyzed countries. The percentage of FDI investments in GDP of Ukraine achieved almost quarter from GDP as well as Romania in 2018. The average wages of Ukrainian employees are the lowest from the mentioned countries.

The figure below confirms the renovation of investment activity in 2015 and can project its future positive development.

Figure 19: Foreign direct investments change (% GDP) in Ukraine



Source: World Bank

However, the Cyprus influence on the Ukrainian economy and specificity of investment procedures likely overestimates the real amount of foreign capital involved in the Ukraine. Relieving the official Cyprus statistics, it is noted that the general volume of outward stocks was limited by \$2 billion into the countries outside of European Union. Therefore, the share of Ukraine should be lower than 30%, which contradicts to the indices officially presented by Ukraine. Consequently, the general percentage of investments in GDP is probably lower than 25%. Meanwhile, in Poland and Romania, the Cyprus investment contribution does not exceed 6%. It corresponds to the data disclosed by both sides of cooperation. In Poland, the more significant importance has such advanced economies such as the Netherlands, the United Kingdom, and Germany. These European states, accompanied by France and Austria actively participate in the Romanian FDI market as well.

4.4.4 Examples of Ukrainian companies, affecting by foreign direct investments.

Investments from such developed European countries as the United Kingdom and the Netherlands have a high share if we do not count Cyprus' participation. For example, part of the \$ 1.8 billion investment in the telecommunication sector of Ukraine is "Kievstar," which is owned by the Netherland's company VimpelCom. It should be noted that the Netherlands' share in Ukrainian investments had grown dramatically (by 8 %) from 2016 to 2017.

According to the data from the Netherlands' Embassy in Ukraine: "around 500 companies with the Dutch capital are registered in the Ukraine. The largest traditional investors are «Royal Dutch Shell», «ING Ukraine», «Rabobank», «Philips», «Akzo Nobel», «Damen Shipyards», «Unilever Export».

When German companies connected with still production, mainly shares in "Kryvorizstal."

The growth of investments in Switzerland was demonstrated by its cooperation in the gas and oil production industry by the company "DTEK Oil&Gas B," however; it is registered in the Netherlands. The Swiss company "Risoil" has invested about \$70 million in the construction of a grain terminal in "Ilichevsk" port in 2014-2016.

Due to investments in the banking sector, the volumes of foreign direct investments have fluctuated. Especially since it is clearly seen by an increase of investments in the Austrian bank – "Raiffeisen bank Aval" and the Hungarian bank "UniCredit" or "OTP." The noticeable change has occurred after decapitalization of banks in Ukraine.

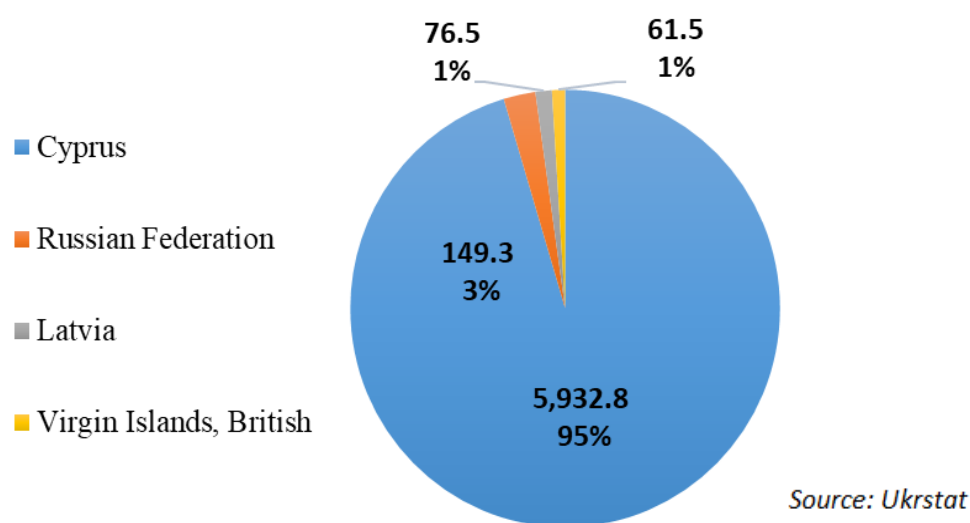
Circumstances of military conflict deter the majority of foreign investments.

However, due to the inquiry of multinational corporations in countries as Ukraine investors mostly care more about unpredictable and unsystematic changes in governmental policy than about the safety problems. 62% of investors have answered that regulation changes are the most critical political risk. Just 15% and 4% consider that terrorism and war are the main threats to their investments. At the same time, the French company "Bio codex" is still investing in the Ukrainian pharmaceutical market. The demand is largely volatile. The American company "Cargill" and Chinese "Confo" are investing in the agricultural industry. Whereas the French company "Nexans" are working with the Chinese company "Fujikura" on a production at the Western side of the Ukraine. These companies value the economic benefits of the Ukraine who has an educated and cheap workforce and an advantageous location.

4.4.1 Ukrainian outward investments into foreign economies

Due to the recent statistical information, the Ukraine has invested \$6,348.5 million abroad in 2017. Unfortunately, analyzing the structure of the Ukrainian outward investments, we cannot say that the Ukraine successfully cooperates with a lot of countries and actively exchanges into other economies.

Figure 20: The most significant Ukrainian outward investments



Looking at Graph 19, the privilege of Cyprus investments in the overall outward structure is undeniable, it achieves 5,932.8, which is 95% from the whole investment structure. Comparing to 2014, when the percentage of investments from Cyprus made up 92%, in 2017 it has grown even more. The reason for such strongly close cooperation is the improvement of contracts and agreements between Cyprus and Ukraine, dedicating to the minimization of taxes and loyal requirements for placing business.

Hungary	17.8	0.3
Netherlands	12.5	0.2
Poland	11.5	0.2
Switzerland	15.7	0.2
Austria	7.2	0.1
Belarus	4.5	0.1
Moldova	7.3	0.1

Source: Ukrstat

Table 3: Other countries, in which Ukraine tend to invest

Ukrainian relationships with European countries started elaborating during the last three years. Nevertheless, the percentages of investments into the European countries as Hungary, Netherlands is pretty low; but it makes the structure of international cooperation of Ukraine more distinctive. The growth of Ukrainian shares is also considered in Poland and Switzerland – \$11.5 and \$15.7 million, which represent the

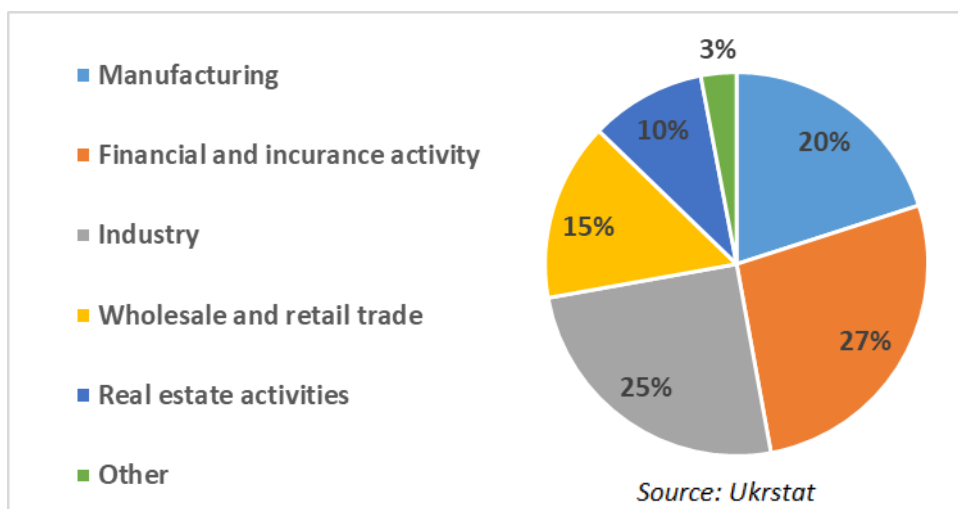
same 0,2%. The investments in other economies achievement point are at just 0,1 %, mostly

lower than \$7 million. In 2017 The National bank of Ukraine has created the law, which should grow the availability of foreign investments from Ukraine, simplifying the requirements for FI license preparation.

4.4.2 FDI by economic activity

While analyzing the export and import structure of the Ukraine It was noticed that manufactured goods are actively exporting abroad. As far as the Ukrainian-manufacturing sector is concerned, it is quite strong; it also has a high impact on the desire of foreign producers to invest into the Ukrainian economy. Therefore in 2014 manufacturing activity took around 23% of FDI inflows in Ukraine. The same percentage had the financial intermediation. Nevertheless, according to Figure 21, we can see, that in 2016 Financial and insurance activity achieved 27%, while the rate of the Manufacturing activity dropped to 20%. The progress in the industrial development of the country was partially completed by foreign capitals too; it is shown to be 25% from the overall inward trends.

Figure 21: Direct investment from Ukraine to countries, by type of economic activity



Wholesale and retail trade, especially the repair of vehicles and motorcycles, presents 3/2 of all investments. The growth of the retail business is mostly achieved thanks to the development of the food industry, especially big retail supermarkets.

The cost of real estate in the Ukraine is relatively lower than in other states situated in Europe. Moreover, the rare drop in prices was noticed in 2016, attracting 10% of FDI in real estate. Despite this fact, today investments in Ukrainian real estate are considered to not be beneficial, because of the devaluation of the national currency.

4.4.3 NCH Capital as an example of the participation of US investments in the Ukrainian economy

As previously stated, the agricultural sphere is one of the most significant parts of the Ukrainian economy. That is why this sphere engages investors from all over the world. An example of such an investment company is NCH Capital, which was established in 1993 in one of the most economically stable countries – the US. It created 25 funds, dealing with problematic markets, developing their efficiency. Depending on local opportunities, their investments were distributed between the real estate, private equity, securities, and agribusiness. Analyzing the current situation approximately half of the capital is represented by agriculture.

The teams dedicated to agribusiness cover Ukrainian, Russian, Moldavian, Romanian, Bulgarian, Kazakh and Latvian territory.

To develop the US agricultural part of investments in Ukraine, the NCH created the Agroprosperis group in 2007. Today the Agroprosperis group is the largest producer and exporter of industrial crops in the Black Sea region. This organization is also the first company, providing Ukrainian crop producers with access to global farming resources and advanced growing technologies. Agroprosperis group offers Ukrainian businesses the goods and services to finance, grow store and export crops into the world market. Moreover, it is operating an innovative supply chain, which links farmers with global markets and helps them to develop. Their full range of products and services are applying efficient technologies, maintaining the highest asset productivity.

Agroprosperis Group production companies successfully grow and export over 2 million tons of 5 key crops, such as wheat, corn, soybeans, rapeseed, and sunflowerseed per year. 60 farm companies represent their production. They cultivated 430 00 ha of land, 12 own technological, modernly equipped grain silos whose capacity ranges from 20 000 to 80 000 tons in key Ukrainian agro regions and some trading companies which are purchasing the agricultural goods and export them to more than 15 areas in the world through the Chicago's stock market.

One of the essential parts of Agroprosperis Group activities is financing. Agroprosperis bank provides financing. It is the first bank in the Ukraine, which specializes specifically in the funding of the Ukrainian small, and medium agricultural farmers with total harvestable land of 100 – 50 000 ha, mainly against the collateral of future harvest. The Agroprosperis bank is the only bank that provides clients with additional opportunities to develop and grow through

cooperation with the Agroprosperis group. Bank's clients are farmers who are ready and willing to build and grow their business using Agroprosperis group expertise.

These conditions of bank services are widely used in crop receipts. The Agroprosperis bank is the first and the most influential representative of these receipts in Ukraine - new improved financial instruments. In the summer of 2017, the bank completed the verification by the Ukrainian national bank, which led to a decision to exceed the bank's capital to the regulatory standard. The increase in the charter capital shows that the Bank has long-term plans in Ukraine.

<http://www.ap-bank.com/en/>

4.4.4 An alternative example of the Netherlands and Banana Republics

As we can see, developed European countries are mostly investing in high-technological industries. When Ukrainian national production is mainly concentrated on metallurgy and heavy industries, as well as the agricultural sector. Therefore, some experts comparing such difference with the development of the Netherlands and "Banana Republics." Of course, Ukraine is a more developed country than countries in Latin America. However, the recent changes and self-declared republics in the eastern part of the country and illegal movements in the south part of Ukraine constitute parallel problems as the poorly developed countries. It is widely believed that today the Netherlands is one of the most attractive countries for direct foreign investments. The superior infrastructure, strategic location, competitive fiscal climate, even multilingual highly educated workforce are factors of Netherlands, which create an exceptional quality of life. Therefore, the variety of developing industries is very high. Main countries-investors are the US 22%, Luxemburg 20%, and the United Kingdom 10%. Such highly developed countries as France, Belgium, and Switzerland also play an essential role in the Netherlands's investment structure. More than half of their capital concentrates on the financial and insurance sector – 54%, manufacturing sector, transport and trade storage as well as construction make up the other half of investment's volume. However, the first place in the industrial development of the country takes mechanical engineering; agricultural production has a sufficient role too. The huge difference in using the most recent technologies in the Netherlands and productively organizing the economy and international trades, in contrast to relatively old Ukrainian traditions. The Dutch work in High tech industries, a good example is a well-known company - Bosh. The headquarters of such a great chemistry

corporation “Unilever” is situated in the Netherlands, even the headquarters of IKEA (one of the most successful housing products retailer) is also taking place there.

In the modern world, experts tend to define Honduras, Botswana, Guatemala, Bangladesh, Laos, Tuvalu as the head "Banana' republics in the world. One collecting feature of these countries is that it is well-known just thanks to one product, which they produce. For instance, Bananas in Honduras, or diamonds in Botswana, coffee from Guatemala. For example, Honduras takes the second place in the rating of the wealthiest economies in Latin America. There is a considerable level of unemployment, and the population is suffering from the unequal distribution of income. The economy is focused on a narrow range of exports, in particular bananas and coffee. Dependence on exports of agricultural products makes the economy highly vulnerable to external factors: from weather conditions and prices on the exchange for exported products. The economic growth of the country depends on the US economy. Such American companies such as ARREND and CASEIF II are trying to support business in Honduras. Insufficient investments are considered from Asian countries as China and Korea.

Ukraine has faced with the same economic problems. Whereas investors in the world have associated the Ukraine with wheat and sunflower oil. We also have one the principal foreign investor with noticeable privilege. In spite of an absolute difference, the level of development and culture and investments from some economically strong countries are concentrated on a business sphere in the Ukraine as well as in Banana republics, even in the Netherland too.

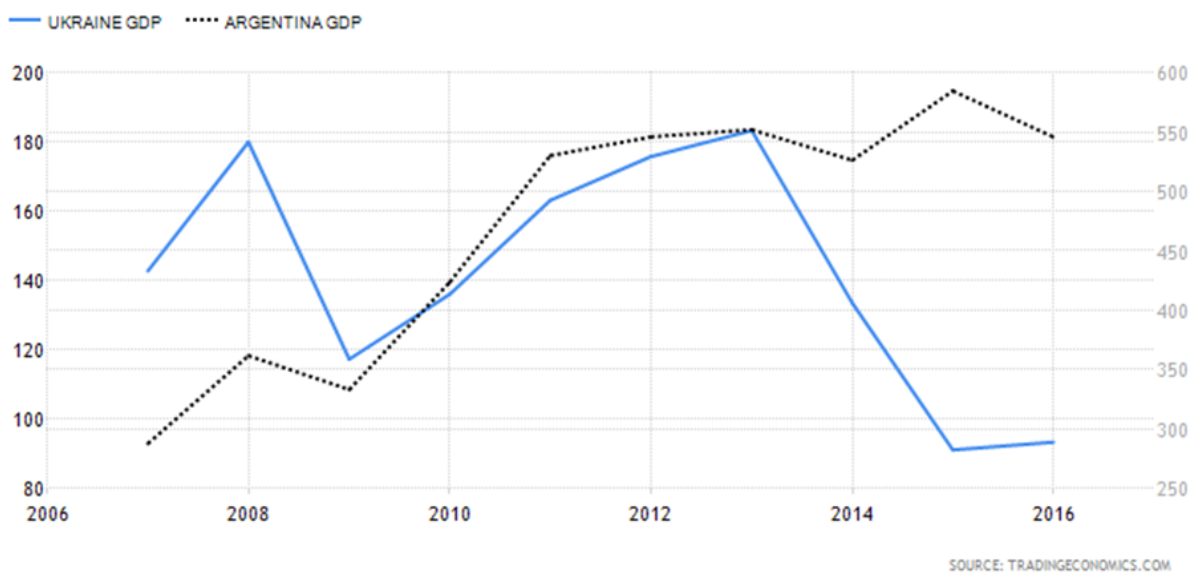
4.4.5 Comparison of Argentina and Ukraine

Everybody knows that these countries are situated on different continents, even though flora, fauna and cultural traditions are very distinctive. While the contents of natural resources are diverse in both regions, colorful and black metals, uranium and wheat, sunflower production are the characteristic for European Ukraine and Latin Argentina. Also, while estimating the economic situation and political growth and issues one could realize noticeable similarities. Both countries went through hard-economic repressions; frequent changes of government during the last decade thrust those nations into crisis and depression. As previously mentioned, the Ukraine faced an economic crisis in 2008 as the majority of European countries. In parallel, the financial crisis of 2008 in Europe and North America, Argentina went through a series of defaults that started in 2001, when IMF has refused to help. There are flourishing problems, which are chasing the Argentinian people: corruption, high

international debts. In the Ukraine, there are similar economic issues. Nevertheless, comparing the line charts, describing the GDP rate for the last ten years, the fluctuations are slightly different. There is a strong resemblance in an increase from 2009 to 2013. Especially in 2012, the lines have crossed at the point of \$180 billion and at the point of \$130 billion in 2009. But, it is clearly seen that after 2013 the Ukrainian GDP has fallen almost twice, while the Argentinian GDP has been fluctuating between \$180 and 200 billion dollars.

Both countries have a negative rate of merchandise exports growth. According to statistical data of 2015 in Argentina, it achieves -17% when the Ukrainian indicator is lower on 13. Starting from 2014 Ukraine and Argentina have been dealing with a hyperinflation problem. Moreover, political instability has also linked these countries. Fortunately, Argentina did not need to concentrate on the conflict with one of the biggest countries in the world in 2014. But it went through technical default. The reason was the necessity to repay debt obligations to a portion of creditors, including funds NML Capital Limited (English) Russian. Because of default, the Argentina national currency started dropping in much the same way the Ukrainian currency did. The problem of overall hyperinflation becomes widespread for the same period as well.

Figure 22: GDP of Argentina and Ukraine



Interestingly that structure of foreign direct investment is distinctive with the Ukrainian. The main investors are the US – 25%, Spain – 16,4% and the Netherlands – 10,6%. And the biggest investment sectors are oil – 17%, followed by the chemical and plastic industry – 13%, then the automobile industry – 6,8, the food industry – 5,9, and other 5,7% assigned to communications.

4.4.6 The Impact of the political situation to foreign direct investments in Ukraine

The events at the main square of the capital of Ukraine – Maidan and the beginning of the conflict in Crimea have had a negative impact on the Ukrainian economy. Following these issues, direct foreign investments had dropped significantly from 4.5 billion in 2013 to 410 million in 2014. Undoubtedly, the main reason for the decline is the military conflict. At the same time, the drop of foreign investment did start to occur in 2013 when FDI decreased by 46.4% from \$8,4 billion in 2012. It owed to the decline in demand for Ukrainian exports, economic uncertainty, and political issues. The same drop occurred in 2009, because of world financial crisis, when FDI fell by 56%. Nevertheless, the fall of FDI by more than ten times that in 2014 has become an unacceptable part of Ukrainian history, and in comparison, to neighboring countries as well. Fortunately, starting from 2015 the FDI in the Ukraine has begun growing. But, this increase is mainly due to the capitalization of banks with foreign capital.

4.5 Opinions of international organizations

4.5.1 The sight of consulting international organizations to the Ukrainian situation

Considering the Policy document by the German advisory group in the Ukraine, the economic indices are mostly compared with Romania and Poland. Data was gathered that pertained to the leading industries that were mentioned previously: metallurgy and food processing. But, comparing the level of life and wages of citizens in the Ukraine takes a secondary position. As it is clearly seen from a recent review, the Ukraine is suffering from the problem of the attraction of foreign investments. The presented data is also confirming the sharp decline of all macroeconomic indices from 2014. The main reason for such negative movements in the Ukrainian economy is conflict in the eastern part of the country. As a result, the attempts to establish the long-term program of FDI attraction and development are under the pressure of economic and politic problems. Unfortunately, the level of GDP was falling by 6,98 % just during 2014, and then continued to collapse by 12% in 2015.

The probability of increasing the performance long-term programs and reforms was becoming smaller and smaller. At the same time, there was a percentage of the financial industry that affected the Ukraine positively. International financial investments took 14% stock of the country.

4.5.2 Memorandum as a necessary source of development

As it is clearly seen from the macrocosmic statistical indices, Ukraine needs an overall long-term plan for recovery and growth. To provide small and great businesses with investments and reinforce the economic situation consulting organizations, the governmental organizations created an investing memorandum. It is a document, revealing all the main features and useful sites of a particular company to inspire investors for the future cooperation. The last news from January 2017 explains the other form of the memorandum, which was signed between the Ukraine and the IMF. In this case, the agreement between partners provides the Ukraine with additional monetary help – \$17.5 million. In February 2017 the international organization decided to confirm the cooperation after the material help, because of the slow fulfillment of reforms by the Ukrainian government.

To support the FDI market and the whole macroeconomic situation, the European Union has decided to organize several rounds of financial help. The first route was started at 600 million Euros. The program adds to the series of 3 tranches of money invested in the Ukrainian economy. The program began in 2015. The Invest funds group published the information about the second series of financial help in the same size of \$600 million on the 16th of March 2016. To maintain the Ukraine, the European Union made the biggest investment during the last few years, compared to the macro-financial help, which was given to other countries from the 'third world.' The mentioned decision should become the reason for global reforms and economic stabilization.

5 Conclusion

The main idea and purpose of the this is to establish a theoretical and practical part of each chapter along with providing the recommendation and opinion about the FDI situation in the World and the Ukraine.

The theoretical section of the thesis starts with the general review of terms describing the specificity of foreign investments as a source of financial resources. It concludes by identifying the positive and negative impact of FDI, which is intimately connected to the origin, period, structure and particular location of FDI. To paint a picture of the Ukrainian contribution in the World FDI market the thesis shows a lot of analytical examples of the comparison of developed European and American States and "Third World countries." In the practical part of the thesis, the level of GDP and capital involved in Ukrainian investments

and its many similarities with developing countries such as Argentina and Bermuda are analyzed. Estimating the levels of FDI in European economic leader's capitals which are mostly 3 or even four times higher than indicators of the Ukraine. However, considering the export and import structure, where Ukraine has the privilege of manufacturing, we must find the relationship to the Central European states. Further analysis of the Ukrainian economy includes industrial division, in identifying which aspects play the most crucial roles in the production of raw materials and metallurgy. Meanwhile, developed countries such as the US and the United Kingdom have progressed to such fields of industries as aerospace engineering and informational technologies.

The industrial and economic development as a whole depends on the foreign capital that is invested in those countries. The majority of European nations have the diverse structure of investments in other countries as to the source of economic activity. The Netherlands has become the most active investor in foreign companies during the last year. When the Ukraine's profile shows the substantial role of Cyprus and financial intermediation activity, taking the sufficient percentage in inward structure and outward FDI flows. But such contribution is mostly explained by hidden economic events and the action of "round-tripping" of domestic Ukrainian capital.

Summarizing such factors, we can distinguish that the Ukraine needs the global progressive changes in the development of the economy, where the FDI will become one of the valuable sources of financing. In my opinion, the Ukraine should use its advantages in things such as being in a central European location, having a diversity of natural resources, a cheap workforce, the strength of metallurgy and agricultural sectors for the attraction of foreign capital. One example of attracting Foreign investments from the World to Ukrainian corporations is American NCH capital, which created the bank for financing producers of the influential agricultural sphere which confirms the fact that the mentioned process has already started.

On the other hand, the sufficient recovery of FDI in the Ukraine has hardly been achieved because of severe state issues such as military conflict, corruption, and the fall of the national currency, unemployment, and national debt. All of these problems increase risks for international investors. It should not be overlooked that the military conflict in the east with the Russian Federation is a cause of profound political disruption. Estimating the future perspectives of the end of the conflict, we can distinguish two primary outcomes: saving of the territory and a convergence of a relationship with the European Union or a negative result

for Ukraine which would be a loss of state control and unification with Russian Federation. Doubtless, it will have a substantial impact on the economy as a whole, accordingly - foreign direct investments. A unification with Russian Federation will produce political risks for the European investors and probably contribute to the development of a shadow economy, in addition to cooperation with Cyprus. In the case of a possible collaboration with the European Union, the risk for positioning international capital in the Ukraine from European states should decrease; as a result, the share of the Russian Federation' and Cyprus' investments will be replaced by European leaders and probably neighboring Ukrainian countries.

To minimize the current political uncertainty, creating the controversial opinions about Ukraine on international media, Ukraine can create the unique insurance which is categorized as political risk insurance. This insurance should make foreign capitals from war, terrorism or the impact of currency change, and economic instability safe. Since conflict occurs only in the eastern part of the country and because the final production of strong industries is fixed such approach is affordable and beneficial to investors in spite of the current Ukrainian circumstances.

The other way to keep and attract FDI in the Ukraine is to provide investors with a target like a message, which will explain the real situation in the Ukraine, underline benefits, but keep the fair valuation of the opportunities.

Reviewing the principals of the National Ukrainian bank, I found out the range of restrictions connected to investment activities and the probability of receiving dividends. It was recommended by the German Advisory group to decrease such measurements in 2014.

Fortunately, especially the last year (2017) the NBU officially published the following press release "ahead with Relaxing Administrative Restrictions in the FX market." Except liberalizing the control, the NBU authorized transactions to 'prevent the outflow of capital via the shadow schemes,' which are highly used in the Ukrainian cooperation with Cyprus.

The last action I believe is essential for the future FDI development is to perform research which establishes the equality of data from international statistical sources, Cyprus as the Ukrainian National banks. It will persuade foreign investors in the honesty and reliability of Ukrainian partners.

Finally, to involve investments from outside of the country, the Ukraine should first concentrate on resolving internal issues, focusing on a long-term plan of recovery and reforms widely recommended by the IMF, the World Bank and international structures, which are helping the Ukraine.

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