

optimal conditions of cooperation by studying each other.

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FDI IN UKRAINE: STATUS AND CURRENT TRENDS

Key words: foreign direct investment (FDI), investment hunger, economic development, investment crisis, investment climate.

In modern terms the growth in foreign direct investment (FDI) leads typically to the increase in economic and social development of almost all countries. In most cases, countries that are leaders in the inflow of foreign direct investments, have high rates of economic growth as well. As an example, we can consider the economy of China with the increasing direct investment in the 90s. The 20th century was the catalyst for economic development. Consequently there is an objective requirement to intensify investment in Ukraine to create a competitive economic system, to modernize and reconstruct the existing enterprises, providing innovation-oriented structural changes in the economy.

Foreign direct investment (FDI) is a capital investment due to long-term economic interest, which provide the investor to control the investee in order to obtain the income. According to the UN SNA, FDI are: company's primary investment, equity capital overseas, reinvestment, and internal corporate transfers. Under the current economic conditions, FDI has reached a very large volumes.

In terms of Ukraine, foreign direct investment is the most profitable one since it is of a great demand for developing countries. The reasons in he fact that it allows imlementing large and important projects; in addition new technologies (e.g. creation of production), new corporate governance practices etc. come to the country. Foreign direct investment in Ukraine would be able to reduce significantly "investment hunger" if their scale can be compared with foreign investments in other Central European countries, which have embarked on economic reforms almost simultaneously with Ukraine. However, in Ukraine this source of financing economic development is inadequate. We believe that foreign direct investment is one of the opportunities for Ukraine to alleviate the situation of the investment crisis.

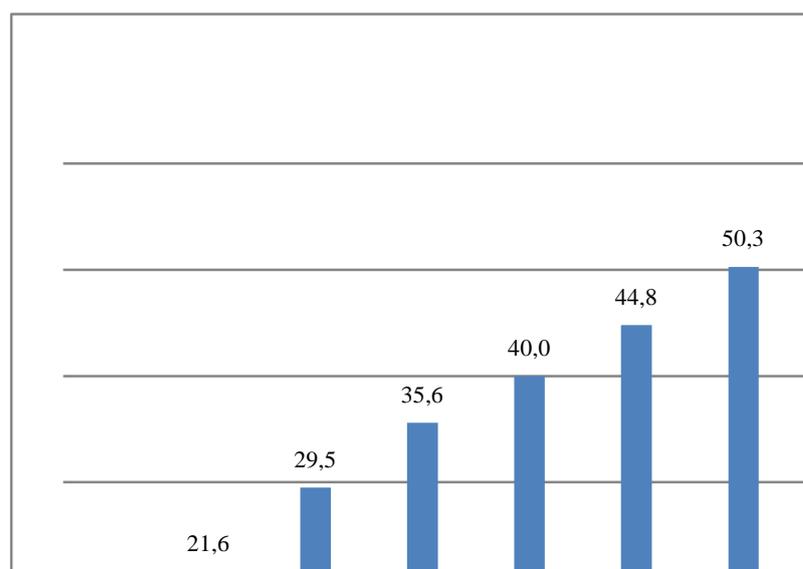


Fig. 1 Foreign direct investment to Ukraine, bil. USD. USA

The diagram above shows that on average over the period from 2007 to 2013 Ukraine has received USD 4.5 - 5.5 bln of foreign investment annually. However, in 2014 – 2016 the amount of such investments has fallen down to the lowest possible level amounting USD 44.7 bln, almost USD 10 bln less than in 2013. This is largely due to the devaluation of the hryvnia and the deterioration of the investment climate.

Speaking about the investment climate and its potential and risks it should be noted that the investment climate is a combination of economic, political, legal, and social factors determining the risk level of foreign investment and the possibility of their effective use in the country or on separate territory. The investment climate has investment potential, i.e. economic growth, the ratio of consumption-saving processes changing the rules of lending rate, inflation, consumer demand, qualification of the workforce, and state of infrastructure. The other side of the investment climate is the investment risks, including state of internal political stability or lack thereof, external conflicts, level of social tension in the country, crime, and corruption.

Consider the reasons for the deterioration of the investment climate in Ukraine. These reasons can be grouped into three conditional parts: 1) Economic: the crisis of purchasing power, low wages, economic instability, currency devaluation; 2) Political: political instability and fighting in the east, a radical change of policies; 3) Legal: unideal legislation, semi-criminal nature of many businesses, investors insecurity, lack of equal “rules” for all the participants of market relations.

Thus, we need to make a series of sequential steps, if we want to attract foreign capital into Ukrainian economy. First, stop the outflow of Ukrainian capital abroad with its following return to the country. We need to change the law governing capital outflows by developing effective control measures and tough sanctions for violators. Second, create the conditions favorable for allocation of capital in the country, pursue consistently the policy of “amnesty” for capital, which is returned to the country. Third, create a favorable investment climate. It means stable tax system providing a low level of income tax; tax system should be built on the same logical principles as the tax system in the developed countries.