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Poliakova Ju. V.,

polyakova0909@gmail.com, ORCID ID: 0000-0002-8073-6186,

Researcher ID: F-8293-2019,

Doctor of Economics, Associate Professor, Professor of the Department of International Economic Relations, Lviv University of Trade and Economics, Lviv

Shayda O. Y.,

shaydaoks@ukr.net, ORCID ID: 0000-0003-1666-0436,

Researcher ID: F-9712-2019

Ph.D., Associate Professor, Associate Professor of the Department of Entrepreneurship and Environmental Examination of Goods, Lviv Polytechnic National University, Lviv

Yaremko S. A.,

sofia.yaremko@gmail.com, ORCID ID: 0000-0001-7058-9816,

Postgraduate, Institute of Regional Research named after M.I. Dolishniy, Lviv

FOREIGN INVESTMENTS AND EXPORT ACTIVITIES OF UKRAINE

Abstract. *The article is focused on the analysis of characteristics, problems and prospects of attracting and application of foreign investments in the economy of Ukraine. The importance of ensuring its positive impact on the export activities of domestic businesses is primarily considered. The peculiarities of the international investment market functioning in the conditions of globalization in the sphere of finance are presented. The role of transnational companies at the current stage of development of the international finance system is outlined. It is emphasized that direct foreign investments are one of the most desirable forms of long-term investments for our country. This results from its contribution to the implementation of powerful ambitious and large projects of industrial, technological and marketing purposes, which collectively determines the country's export opportunities in world markets. An analysis of the dynamics, geographical and sectoral structure of foreign direct investments in Ukraine is conducted. It was found that the largest foreign investors in our country are representatives of a small number of countries; the group of offshore investments is clearly traced in foreign capital; the sectoral structure of investments is dominated by areas focused on rapid payback and low technological effectiveness. The main problems in the development of export activity along with the modern factors that determined the processes of export activity of Ukraine in 2020 are considered. An econometric model of Ukraine's exports of goods and services dependence on foreign direct investments on the basis of current statistics for 2004-2020 is created. The study found that the impact of foreign direct investments on the development of Ukraine's export potential has already begun to manifest in domestic economy. At the same time, the need to further attract foreign investments into the economy of our country was emphasized. It is due to the priority of structural adjustment of the domestic industrial complex, enhancement of the country's export potential and implementation of strategies for overcoming the economy's dependence on energy imports.*

Key words: foreign investments, investment resources, financial globalization, foreign direct investments, export activity.

Полякова Ю. В.,

polyakova0909@gmail.com, ORCID ID: 0000-0002-8073-6186, Researcher ID: F-8293-2019,

д.е.н., доц., професор кафедри міжнародних економічних відносин, Львівський торговельно-економічний університет, м. Львів

Шайда О. Є.,

shaydaoks@ukr.net, ORCID ID: 0000-0003-1666-0436,

Researcher ID: F-9712-2019,

к.е.н., доцент, доцент кафедри підприємництва та екологічної експертизи товарів, Національний університет "Львівська політехніка", м. Львів

Яремко С. А.,

sofia.yaremko@gmail.com, ORCID ID: 0000-0001-7058-9816,

аспірантка, ДУ "Інститут регіональних досліджень імені М. І. Долишнього НАН України", м. Львів

ІНОЗЕМНІ ІНВЕСТИЦІЇ ТА ЕКСПОРТНА ДІЯЛЬНІСТЬ УКРАЇНИ

Анотація. Стаття присвячена аналізу характерних рис, проблем та перспектив залучення і використання іноземних інвестицій в економіці України передусім з огляду на важливість забезпечення їх позитивного впливу на експортну діяльність вітчизняних суб'єктів господарювання. Наведено особливості функціонування міжнародного інвестиційного ринку в умовах глобалізації у сфері фінансів. Окреслено роль транснаціональних компаній на сучасному етапі розвитку системи міжнародних фінансів. Наголошено, що прямі іноземні інвестиції для нашої країни виступають однією з найбільш бажаних форм довгострокових капіталовкладень, тому що вони сприяють реалізації потужних амбітних та великих проектів виробничого, технологічного, маркетингового призначення, що сукупно визначає експортні можливості країни на світових ринках. Проведено аналіз динаміки, географічної та галузевої структури прямих іноземних інвестицій в Україні. З'ясовано, що: найбільші іноземні інвестори в нашій країні є представниками невеликої кількості країн; у іноземному капіталі чітко простежується група офшорного інвестування; у галузевій структурі інвестицій домінують сфери, орієнтовані на швидку окупність та низьку технологічність. Розглянуто основні проблеми у розвитку експортної діяльності та визначено сучасні чинники, що визначили процеси експортної діяльності України у 2020 році. Побудована економетрична модель залежності показника експорту товарів та послуг України від надходження прямих іноземних інвестицій на основі сучасних статистичних даних за 2004-2020 рр. У результаті дослідження встановлено, що вплив прямих іноземних інвестицій на розвиток експортного потенціалу України в економіці нашої країни вже почав проявлятися. Водночас наголошено про необхідність подальшого залучення іноземних інвестицій в економіку України, що обумовлено пріоритетністю структурної перебудови вітчизняного промислового комплексу, нарощування експортного потенціалу країни, реалізацією стратегій подолання залежності економіки від імпорту енергоресурсів тощо.

Ключові слова: іноземні інвестиції, інвестиційні ресурси, фінансова глобалізація, прямі іноземні інвестиції, експортна діяльність.

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Formulation of the problem. At the current stage of the global economy development, foreign direct investments remain an important form of international internationalization and economic cooperation. Flows of foreign direct investments are becoming global, countries and regions compete to attract investment resources to achieve the goal of a high level of socio-economic development in a rapidly growing global investment demand. Attracting foreign investment is consistent with the benefits and risks that exist in the host country. In such conditions, competitive advantages are obtained by those countries and regions that are able to offer more attractive, stable and optimal financial and economic mechanisms for regulating the movement of investment resources within the established national strategy for attracting foreign investment.

The issues of attracting and effective usage of foreign investments remain relevant for Ukraine, especially considering its use to stimulate the development of export potential. It is important to emphasize that Ukraine has consolidated its export specialization as a country that sells low-processed products on the world market. The prices of world market have the ability to fluctuate under the influence of a number of factors, which is negatively reflected in the country's export earnings.

Analysis of recent research and publications. The scientific works of many domestic and foreign scientists are dedicated to the study of foreign investment processes at the global and at the national economies level or regions. International analytical

organizations and rating agencies regularly conduct research on the investment attractiveness of territories, investment risk and rating positions of countries in the field of attracting and using foreign capital. Foreign investments as a factor of economic development of Ukraine are considered by M. Pashkevych, A. Pekhnyk, I. Chynytska, O. Sharov. R. Bilyk and S. Polishchuk are studying the transformation of our country's investment processes in the conditions of global financial instability. Peculiarities of the formation of investment climate in Ukraine are also considered as the subject of scientific research by domestic scientists, among them O. Burdylo, A. Gushcha, E. Mordan, Y. Shvets. Yu. Kolupaev, S. Zalyubovska, I. Melnychuk study the existing problems of attracting investment resources. Aspects of using foreign investments to intensify Ukraine's export activities with a preference for the production and sale on the world markets of goods with high added value remain relevant.

Setting objectives. The purpose of the article is to substantiate the impact of foreign direct investments on the development of Ukraine's export activities.

Presentation of the main research material. Globalization in the field of finance contributes to the ability of quick and effective financial resource attraction for the development of its own economy. At the same time, it determines the ability to act as a lever of influence. Financial globalization can not only revive investments, but also significantly slow down, channel them in a direction that does not always fully meet the established national priorities or interests.

Nowadays global business takes into account the level of efforts of entrepreneurs, politicians, financial institutions, educational centers and NGOs to form and implement a favorable ecosystem for doing business. The attitude of investors for decision-making directly depends on strategic factors that have an impact on business development. It is, in particular, the ability to attract qualified personnel and identify areas of staff development and education [1].

Attracting foreign investments is consistent with the benefits and risks that exist in the host country. Today, the global economy reveals the essence of investment policy as the revival of cooperation with foreign investors, regulation of economic, political and social activities, control over the market [2, p. 37]. The number of positive aspects are observed in Ukraine, such as liberalization of currency legislation, stability of the national currency, reducing inflation, continuing dialogue with the IMF. Unfortunately, old problems remain – distrust of the judiciary, political and economic turbulence [3]. In the meantime, the shadow economy, lack of incentives, lack of operational market information and low level of cooperation with investors constrain the attraction of foreign investments [4, p. 34-35].

Transnational companies play an important role at the present stage of development of the international finance system and economic relations in general. The vast majority of foreign direct investments is invested and controlled by these companies. It is justified by the liberalization of regulation of foreign direct investments in most countries around the world within the general trend of intensifying policies to encourage the development of market relations.

The investment market of Ukraine is represented by such multinational corporations as Coca-Cola, Hewlett-Packard, Samsung, Nestle, Nokia, Toyota, Metro Cash & Carry, British American Tobacco, as well as powerful FMCG companies that produce goods for everyday use and daily demand (food, beverages, cosmetics, household chemicals). Coca Cola, Volkswagen, Panasonic, Sony and some others entered the Ukrainian market with initial investments. Despite

this most of these companies concluded comprehensive agreements regarding merger and acquisition processes. If the socio-economic situation becomes unstable, such processes reduce the vulnerability of enterprises and contribute to the qualitative reorganization and modernization of existing production processes. Also, increase the competitiveness of the economy and products along with employment [5, p. 25].

Foreign direct investments are one of the most desirable forms of long-term investments, because its contribute to the implementation of powerful ambitious and large projects of industrial, technological and marketing purposes. In addition, the country's economy receives new technical solutions, modern practices of corporate governance and others.

Foreign direct investments in Ukraine's economy demonstrated an increase due to the direct participation of private equity investor in capital formation, in particular for the period from January to June 2021 by 2.7 billion US dollars (of which 2.3 billion dollars – reinvested earnings of direct investors). Such inflows of foreign direct investments were determined primarily by reinvested earnings received by foreign investors. At the same time, excluding the investor's reinvested earnings, investments in the capital of direct investment enterprises (\$ 430 million) were clearly insufficient even to compensate for the outflow of direct investors' funds through debt instruments (\$ -460 million). It will be recalled that reinvested earnings mean the share of investors in retained earnings or losses of the enterprise. It is calculated on the basis of net operating income in accordance with the share of foreign investors in the share capital.

In compliance with official statistical sources, the inflow of foreign direct investments for 10 months of 2020 amounted to only \$ 220 million dollars (for comparison: in 2019 – \$2.5 billion). Note that in 2018, the net inflow of foreign direct investment in Ukraine amounted to \$2.4 billion.

Table 2.1

Foreign direct investments in Ukraine in 2020 (million USD)

2020	FDI in Ukraine		FDI from Ukraine	
1 quarter	-1549	-3117	11	-637
2 quarter	1255	2804	3	-8
3 quarter	-49	-1304	48	45
4 quarter	-525	-476	20	-28
in a year	-868		82	

According to: [6]

Foreign direct investments in Ukraine from 2002 to 2021 (million USD)

Years	FDI in Ukraine		FDI from Ukraine	
	2002	693		-5
2003	1424	731	13	18
2004	1715	291	4	-9
2005	7808	6093	275	271
2006	5604	-2204	-133	-408
2007	9891	4287	673	806
2008	10913	1022	1010	337
2009	4816	-6097	162	-848
2010	6495	1679	736	574
2011	7207	712	192	-544
2012	8401	1194	1206	1014
2013	4499	-3902	420	-786
2014	410	-4089	111	-309
2015	-458	-868	-51	-162
2016	3810	4268	16	67
2017	3692	-118	8	-8
2018	4455	763	-5	-13
2019	5860	1405	648	653
2020	-868	-6728	82	-566
2021	2836	3704	41	-41

According to: [6]

Considerable proportion of investments comes from the Netherlands, Cyprus, the United Kingdom and Germany. Experts explain that a separate share of foreign direct investments may actually be so-called "circular", which first belonged to domestic entities, and then returned to Ukraine through financial centers. It is important for Ukraine to attract investments from EU member states, as the operation of the Association Agreement between Ukraine and the EU implies close cooperation and adaptation of European standards. Nowadays almost 77% of the EU's economy is involved in Ukraine's one. However, the barrier for European investment admission is primarily strong competition from Poland, Hungary, the Czech Republic and the Baltic States. All of them are located much closer to the territorial boundaries of the EU and are determined by the so-called "cultural kinship" [7, p. 167].

Ukrainian scientists noted that attracting investments would solve the issue of structural reform of the economy, increasing the competitiveness of products and enterprises, the transition to an innovative model of development. Those issues have already been resolved in Poland by attracting foreign capital [8, p. 28].

In the sectoral context, the largest volumes of foreign direct investments are attracted to the processing industry of Ukraine, trade, and real estate. After close observation of such geographical and sectoral structure of foreign investments in Ukraine's economy, it can be stated that offshore investments displace the invest-

ments of developed countries from the domestic economy and provide mostly quantitative indicators of foreign direct investments growth, rather than qualitative processes. Most investors are willing to invest in manufacturing and trade, where costs pay off quickly and there are low commercial risks. Among the popular industries that do not require long-term investments and the development of new technologies are the financial sector and the real estate sector. Such a structure does not allow full integration into global value chains and does not strengthen the country's competitive position in world markets [9].

German advisory group research demonstrates that companies with foreign investments are more efficient than purely domestic ones. In view of this, it is reasonable to attract foreign investments to overcome the technological gap and intensify innovation. According to research, the average Ukrainian company with foreign investments produces 11 times more products than the average domestic one. Also, in the non-financial sector there are only 4.6% of enterprises with foreign investments. Those enterprises employ 20.4% of all employees in the sector, producing 34.9% of total gross value added. Labor productivity is higher in enterprises with foreign direct investments. It also contributes to higher wages in enterprises that offer 57% higher wages per employee [10].

The urgency of attracting foreign investments for Ukraine is confirmed by the following preconditions:

local shortage of national capital, the need to modernize domestic enterprises and attracting high technology. Despite the fact that government agencies, academia and all stakeholders have been working on this issue throughout the period of independence, a number of laws and regulations have been adopted. At present, the results of attracting investments remain disappointing, and powerful European or Western investors are very cautious about investing in Ukraine's economy.

At present, Ukraine's economy continues to be export-oriented, with the characteristics of diversification. The current involvement of our country in the world commodity market has a pronounced resource character, as the largest component of domestic exports is agricultural products.

According to the results of 2020, the total volume of exports of goods and services from Ukraine amounted to \$59.0 billion. Exports of goods and services in 2020 compared to 2019 decreased by \$5,008.3 million. Export deliveries took place to 199 countries. During the same period, exports of goods amounted to \$ 49.2 billion. It should be pointed out that in comparison with 2019 export of the goods in 2020 decreased by 1,7%.

Factors that determined the processes of Ukraine's export activity in 2020 [11]:

1. Deployment of COVID-19 internationally, which led to significant transformations in the life processes of almost all states.

2. Falling business activity of industrial enterprises and declining production in countries where a number of measures have been introduced against the spread of the COVID-19 pandemic. It contributed to a global decline in consumer and industrial demand and falling prices in world commodity markets.

3. Strong raw material orientation of domestic exports and significant dependence of Ukrainian enterprises on foreign markets.

4. Continuation of Russia's aggression in the field of foreign trade (embargo, restrictions on supplies to

the Russian market of domestic goods, ban on transit of goods of Ukrainian origin).

5. Systemic issues in the intensification of foreign economic activity (export refunds, customs and tax regulation).

It is also important to investigate the extent to which Ukraine's export opportunities depend on the inflow of funds into the economy from abroad. There was created an econometric model of the dependence of the indicator of exports of goods and services of Ukraine on the inflow of foreign direct investments. Data for the period 2004-2020 were used to build the model. The linear regression model reflects the dependence of Ukraine's exports on the volume of foreign direct investments:

$$Y = 29764.39 + 0.6 X, (1)$$

where Y - exports of goods and services,
X - foreign direct investment.

The intensity of the relationship between the variables included in the linear regression model is measured by a correlation coefficient of 0.69, which indicates the presence of a noticeable direct relationship between those variables. Checking the reliability of the regression model and the correlation coefficient based on Fisher's criterion provides grounds to conclude that the model is adequate, because the observed value of F-statistics 13.52 is greater than the table at 0.01. The independent variable included in the model is statistically significant (t-statistics value 5.2). Darbin-Watson statistics recorded the calculated value of DW = 1.55, which was compared with the critical statistical values for $\alpha = 0.01$, $p = 1$ and $n = 17$; $d1 = 0.874$ and $d2 = 1.102$. Therefore, the hypothesis of no autocorrelation of residues is acceptable. Thus, the impact of foreign direct investments on the development of Ukraine's export potential has already begun to manifest in the economy.

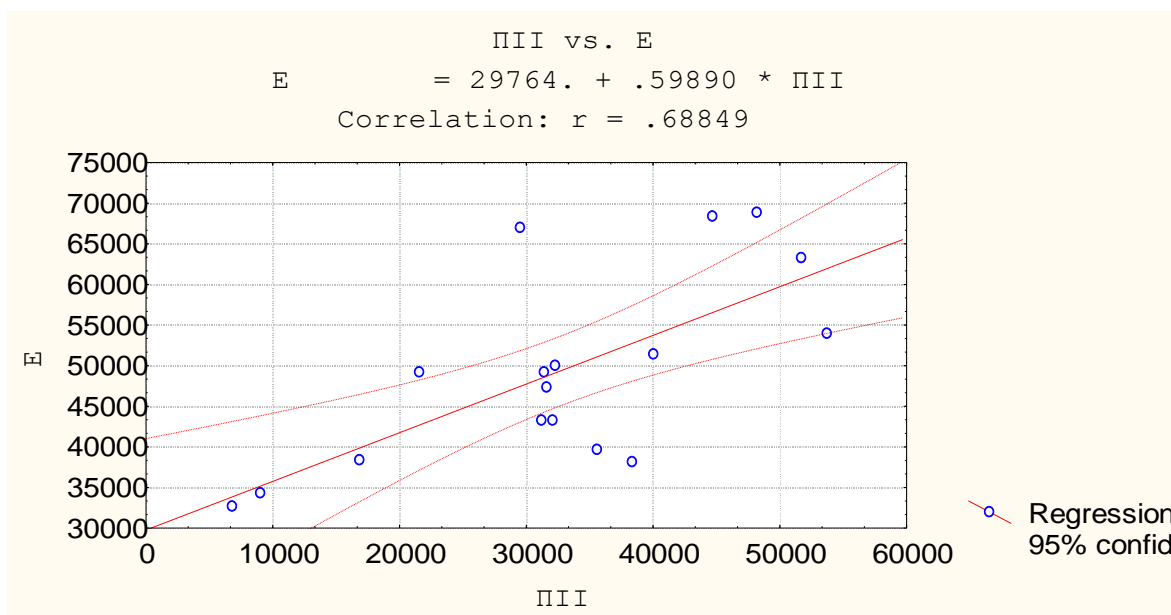


Fig. 1. Dependence of exports of goods and services of Ukraine on the volume of foreign direct investments

The National Strategy for Increasing Foreign Direct Investments in Ukraine was developed by the international company EY together with domestic partners (Office of the National Investment Council, Ministry of Economy of Ukraine and Office for Attracting and Supporting Investments UkraineInvest) in accordance with the request of the Ukrainian Government” [12]. This program document provides thorough recommendations on the prospects for the development of priority industries and areas to attract investment and justify appropriate ways to increase the inflow of foreign direct investments in Ukraine. This document is designed primarily as a signal for the international investment community and domestic institutions, whose main activities are focused on investment resources.

However, the need for further attraction of foreign investments in the Ukrainian economy of is due to the following:

- the importance of continuing the optimization processes of structural adjustment of the domestic industrial complex;
- promoting the achievement of a high technical and technological level of production based on the application and implementation of modern innovative solutions, technologies and inventions;
- motivation to increase the volume of use and increase the export potential of the country;
- implementation of developed strategies to overcome the strong dependence of the economy on energy imports;
- the use of local natural resources, raw materials and components on a joint venture basis.

Conclusions and prospects for further research in this area. In practice, the vast majority of decisions on foreign direct investments or investment projects are based on various motives, taking into account various criteria. The volume of attracted foreign investments indicates about the degree of integration of the country into the world economy, the formed system of foreign economic relations, the openness of the economy and the level of investment attractiveness.

The conducted analysis delineates that the largest foreign investors are from a small number of countries; the group of offshore investments is clearly traced in foreign capital; the sectoral structure of investments is dominated by areas focused on rapid payback and low manufacturability; the volume of accumulated investment resources has decreased significantly in recent years, which shows the caution of investors and willingness to leave the market quickly under any adverse conditions; technology-leading countries mostly bypass domestic investment.

There are important measures to optimize and increase flows and improve the structure of foreign direct investments in the economy of Ukraine. Those measures aimed at developing export activities of domestic entities, which involves their technological renewal, involvement in international value chains and usage of existing foreign trade networks.

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